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KANSAS BUSINESS REVIEW

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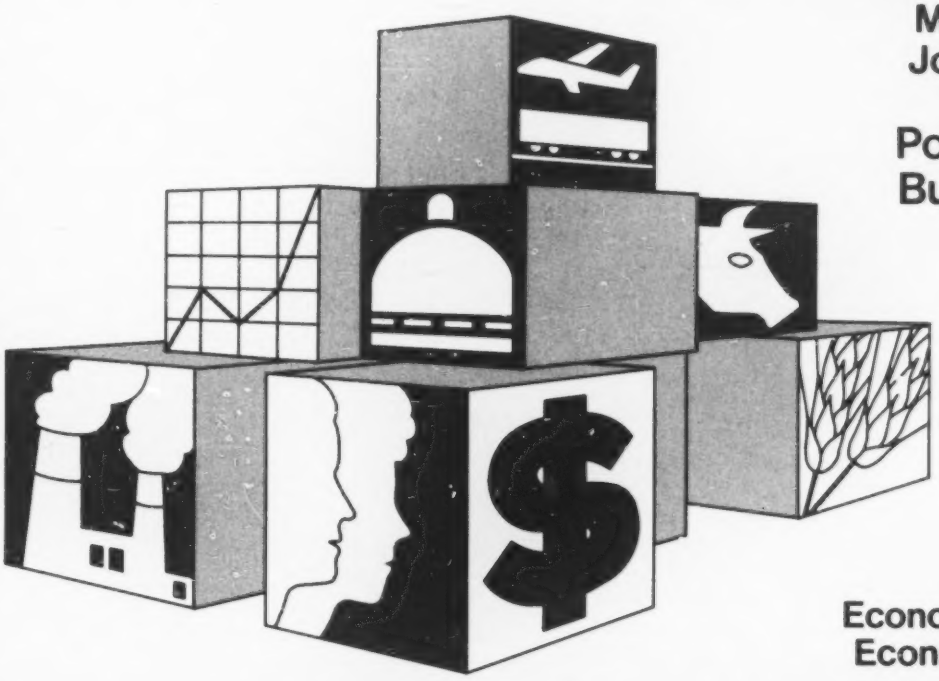

Economic Conditions
Economic Indicators

Institute for Economic and Business Research, The University of Kansas

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Kansas Economic Development in the Decade Ahead: A Method and Application

Robert A. McLean

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Introduction

The economic health of a state is determined, in great part, by its ability to provide employment opportunities for its citizens. In this respect, the well-being of a state's economy depends particularly upon how well it retains its young workers because this segment of the work force, when first entering the job market, is most prone to leave for surrounding states if satisfactory employment is not available. When a state does suffer an outmigration of its young workers, then the subsequent decline in the overall population and the relative decline in the proportion of the population in the early working and household-forming years signal to firms that a state is not attractive for the location of production or retail facilities.

High rates of employment growth, on the other hand, retain young workers, attract new production and retail facilities, and, through multiplier effects, increase the incomes of all residents. Thus, every state is concerned with attracting new employment-generating facilities and with encouraging the growth of existing facilities.

The State of Kansas has made attracting new industry a high priority for the remainder of the 1980s. This article seeks to identify those industries in which such efforts are most likely to be successful.[1]

The method employed in this study to "target" these growth and growth-related industries begins by acknowledging that, at any point in time, some industries experience rapid growth; others, having matured, grow at the same rate as the economy as a whole; and yet others experience relative or absolute decline. Thus, the economic development of any region is tied to the life-cycle stages of the industries operating in that region and of the industries that region is able to attract. Given, therefore, a region's industrial profile, the projected changes in that profile, and the life-cycle stages of the industries represented in that profile, one can forecast the region's prospects for economic growth.

This article employs data gathered at the national level to draw inferences about the Kansas economy and, in particular, explores the consequences of interindustry differences in projected growth rates on economic development and employment growth in Kansas. The period of interest is the decade ahead. While the starting point for this analysis is the current Kansas industrial profile, attention is given, as well, to the potential for the location of new industries in the state.

An analytic approach to these issues is developed in the following two sections. This approach is then applied to the existing industrial profile and, subsequently, to the prospects for change in that profile in Sections III-V. Implications for economic development planning are addressed in the concluding section.

I. Growth Industries and Input-Output Linkages

Over time, almost all industries conform to the pattern of a generalized life cycle.[2] Initially, the introduction of a new product involves a period of slow sales growth. Successful product introduction then generates a period of rapid sales growth followed by a period of maturity (market saturation). During the period of maturity, sales growth—both in dollar value and in physical units—tracks the overall growth of the economy (nominal and real Gross National Product, respectively). Some industries, but not all, then enter a period of decline as new, substitute products are introduced.

By examining industry life cycles, expected growth in GNP, and interindustry linkages, one can project which industries are likely to be growth leaders, at least for the near term. A key to the approach developed here is, therefore, the study of interindustry linkages, also known as input-output analysis.[3, 4]

Input-output analysis concerns the distribution of industrial output among purchasers. That is, the analyst can, using input-output methods, describe the use pattern of the output of any industry (broken down according to purchases by using industries and use by final consumers) and the inputs that go into any industry's production. The forward linkage from Industry A to Industry B is the percentage of A's output purchased by B. Similarly, the backward linkage from B to A is the percentage of B's purchases composed of A's output. Given the dollar values of interindustry shipment, one can calculate these forward and backward linkage percentages. Those percentages then become the coefficients of input-output matrices (as depicted in the Appendix).

It is important to note that the forward linkage coefficients are not the same as the backward linkage coefficients. Indeed, without knowledge of the underlying data, forward linkage coefficients cannot be used to compute backward linkage coefficients. While, in casual usage, the backward and forward linkage tables may be called the "inverses" of one another, they are not one another's inverses in the mathematical sense.[5]

Given an understanding of input-output relationships, one can identify several classes of industries which will contribute materially to the economic development of Kansas in the

Kansas does not now have a high degree of investment in those industries most likely to grow rapidly in the next decade.

next decade. Two of those classes are based on the existing distribution of economic activity in the state:[6]

(a) Industries now comprising significant portions of the Kansas industrial base, the final demand for whose output will grow rapidly.

(b) Industries now comprising significant portions of the Kansas industrial base which have strong forward linkages to industries, the final demand for whose output will grow rapidly. These are industries which supply inputs to those industries whose production is expected to grow.

Where industries meet the conditions of (a) and (b), above, but represent only minimal existing activity in Kansas, they can be expected to generate high investment growth in percentage terms but not in absolute (dollar value) investment and employment (number of jobs), given the small base from which that high growth rate proceeds.

Three other classes of industries can be identified as potential sources of economic development, based on the less predictable entry of new activities to the state:[7]

(c) Growth industries (see (a), above) which locate in Kansas to enjoy some advantage inherent in such location (e.g., geographic proximity to markets).

(d) Growth industries using outputs of Kansas industries (i.e., growth industries with strong backward linkages to Kansas industries).

(e) Industries supplying inputs to growth industries now in Kansas (i.e., industries with strong forward linkages to growing Kansas industries).

II. Identifying Growth Industries

The identification of industries likely to experience above average growth in output is a complex task. Government agencies, location consultants, and securities analysts all demonstrate professional interest in this endeavor.[8] From the securities analysis literature, one can focus on several factors that are characteristic of industries with strong near-term growth prospects:

- Successful introduction of a new product, service, or process (e.g., microcomputer parts, assembly, and software; recombinant DNA-based pharmaceutical products; cellular radio).

- Provision of some product or service to a growing demographic group (e.g., nursing home services, pre-school toys, residential construction).

- Change in the cost of production that makes a product newly competitive in domestic and world markets (e.g., steel production in Japan).

From the perspective of the analyst of a state's economy, there are three sources for identification of such industries.

- The analyst's own perceptions. While there is, of course, personal bias and subjective judgment inherent in such identifications, an informed, aware analyst should not ignore his own projections. Indeed, such perceptions are the foundation of industry studies in securities analysis.

- The popular press. Naisbitt (1983) has identified a set of emerging growth industries based on content analysis of popular periodicals. Judgments from such sources should be modified with sound analysis before becoming the basis of public policy.

- The Bureau of Industrial Economic's continuing study of American industry.[9] The Bureau continuously monitors the outlook for domestic industries. Those evaluations are used extensively in the analysis that follows.

Table 1 lists 19 industries that the Bureau of Industrial Economics has identified as having potential for rapid growth. The author's criterion for inclusion in this list is a projected annual growth rate greater than 8.0-9.0 percent for 1982-1985.

III. The Kansas Industrial Profile

Table 2 provides the most recent profile of Kansas industrial activity available at this writing. Industries at the two-digit level are profiled both in number and percentage of establishments and in number and percentage of employment.[10] Informed observers of the Kansas economy will find few surprises here. The agricultural services classification does not include farming, *per se*. The data also exclude government employees, railroad em-

Table 1
Potential "High-Growth" Industries: 1980-1985

Industry	SIC Code
Residential Construction	152
Lumber and Wood Products	24
Printing and Publishing (newspaper, periodicals, books only)	2711, 2721, 2732
Drugs	2833, 2834
Plastic Products	3079
Aluminum	3353, 3354, 3355, 3357
Metalworking Machinery	354, 356
Machinery, except electrical	35
Electronic Computing Equipment (including software)	3573
Consumer Electronics	3651
Telephone and Telegraph Equipment	3661
Electronic Equipment and Components	3662
Instruments	38
Dolls, Games, Toys, and Children's Vehicles	3942, 3944
Broadcasting (including cable TV)	4832, 4833, 4899
Telephone and Telegraph Services	4811, 4821
Hotels and Motels	701
Automotive Services	75
Health and Medical Services	80

Source: U.S. Department of Commerce, Bureau of Industrial Economics (1981). Criterion for inclusion here is a projected compound real rate of growth of sales of 8-9% or greater.

Table 2
Kansas Activity Profile: 1980

Sector	Industry	SIC	Number of Establishments	Percent of Establishments	Employees (March 12)	Percent of Employees
Agriculture	Agriculture Services	07	542	1.0	1,000-2,499	0.1-3.3
	Forestry	08	3	0.0	6	0.0
	Fishing, Hunting, and Trapping	09	2	0.0	0-19	0.0
Mining	Metal Mining	10	4	0.0	20-99	0.0
	Coal Mining	12	12	0.0	500-999	0.1
	Oil and Gas Extraction	13	979	1.8	13,359	1.8
	Non-metalic Mining	14	121	0.2	1,668	0.2
Construction	General Construction	15	1,678	3.0	13,461	1.8
	Heavy Construction	16	503	0.9	11,587	1.5
	Special Trade Construction	17	2,964	5.4	23,086	3.0
Manufacturing	Food	20	307	0.6	22,773	3.0
	Textile	22	6	0.0	24	0.0
	Apparel	23	68	0.1	4,529	0.6
	Lumber	24	119	0.2	3,704	4.8
	Furniture	25	59	0.1	2,421	0.3
	Paper	26	46	0.1	4,462	0.6
	Printing and Publishing	27	526	1.0	16,889	2.2
	Chemicals	28	102	0.2	8,408	1.1
	Petroleum and Coal	29	35	0.1	4,181	0.5
	Rubber and Plastics	30	127	0.2	8,655	1.1
	Leather	31	9	0.0	200	0.0
	Stone, Clay, Glass	32	232	0.4	7,583	1.0
	Primary Metal	33	53	0.1	4,426	0.6
	Fabricated Metals	34	254	0.4	10,704	1.4
	Machinery, except Electric	35	531	1.0	32,190	4.2
	Electric and Electronic Equipment	36	102	0.2	10,277	1.3
	Transportation Equipment	37	127	0.2	54,425	7.1
	Instruments	38	40	0.1	9,645	1.3
	Miscellaneous Manufacturing	39	87	0.2	1,931	0.3
Transportation and Public Utilities	Local Passenger Transit	41	94	0.2	2,273	0.3
	Trucking and Warehousing	42	1,821	3.3	19,174	2.5
	Water Transportation	44	11	0.0	79	0.0
	Transportation by Air	45	78	0.1	1,998	2.6
	Pipelines, except Gas	46	16	0.0	830	0.1
	Transportation Services	47	125	0.2	1,451	0.2
	Communication	48	469	0.8	15,392	2.0
	Electric, Gas and Sanitary	49	241	0.4	8,738	1.1
Wholesale Trade	Wholesale, Durable Goods	50	2,848	5.2	31,998	4.2
	Wholesale, Nondurable Goods	51	2,319	4.2	24,861	3.3
Retail Trade	Building Materials	52	986	1.8	6,911	9.0
	General Merchandise	53	470	0.8	19,851	2.6
	Food Stores	54	1,591	2.9	21,346	2.8

	Auto Dealers and Service	55	2,765	5.0	21,448	2.8
	Apparel Stores	56	1,503	2.7	10,522	1.4
	Furniture Stores	57	1,072	1.9	6,384	0.8
	Eating and Drinking Places	58	3,242	5.9	50,321	6.6
	Miscellaneous Retail	59	3,410	6.2	20,898	2.7
Finance,	Banking	60	649	1.2	15,428	2.0
Insurance and	Credit Agencies, not Banking	61	764	1.3	6,608	0.8
Real Estate	Security and Commodity					
	Brokers	62	135	0.2	763	0.1
	Insurance Carriers	63	392	0.7	11,450	1.5
	Insurance Agents	64	1,119	2.0	4,666	0.6
	Real Estate	65	1,477	2.6	7,871	1.0
	Real Estate/Insurance	66	179	0.3	643	0.1
	Holding and Other					
	Investment Offices	67	159	0.3	1,438	0.2
Services	Hotels	70	539	1.0	7,871	1.0
	Personal Services	72	1,779	3.2	9,816	1.3
	Business Services	73	1,429	2.6	16,715	2.2
	Auto Services	75	1,100	2.0	5,186	0.7
	Miscellaneous Repair Services	76	545	1.0	2,917	0.4
	Motion Pictures	78	176	0.3	1,615	0.2
	Amusement and Recreation	79	562	1.0	5,762	0.8
	Health Services	80	3,237	5.9	64,666	8.5
	Legal Services	81	1,043	1.9	3,985	0.5
	Educational Services	82	209	0.4	6,969	0.9
	Social Services	83	778	1.4	8,890	1.2
	Museums, etc.	84	24	0.0	74	0.0
	Membership Organizations	86	1,975	3.6	13,868	1.8
	Miscellaneous Services	89	824	1.5	7,116	0.9
Total			55,021	100.0	763,326	100.0

Source: U.S. Department of Commerce, Bureau of the Census (1982).

ployees, and the self-employed. Data at levels finer than the two-digit level are available in *County Business Patterns* (U.S. Department of Commerce, Bureau of the Census, 1982) and will be discussed where appropriate.

At this point, it is sufficient to note only a few select features of the Kansas industrial profile. First, Kansas has a well diversified economy. No industry accounts for even 10 percent of total employment or more than 6.0 percent of all establishments. These data also suggest that the manufacturing export base (at the two-digit level) consists primarily of machinery (except electrical) and transportation equipment (almost exclusively aircraft). Communication equipment and miscellaneous plastic products are significant parts of the Kansas industrial profile at finer levels of aggregation. The state's largest two-digit industry (health services) dwarfs all others, both in the number of establishments and in employment.

Since this research was completed, the University of Kansas Institute for Economic and Business Research has begun the development of a detailed model of the Kansas economy. In the future, those interested in the industrial profile of, and the interindustry linkages within Kansas should consult the results of that economic modeling project.

IV. Growth Industries and the Current Kansas Industrial Profile

Considering the potential growth industries (Table 1) as components of the existing distribution of industries in Kansas (Table 2) reveals that the prospects for growth are mixed. A major component of the manufacturing export base of Kansas is transportation equipment, especially aircraft (assembly and parts).[11] The prospects for growth in that set of industries are not strong.[12] Construction, especially residential construction, is, nationally, a strong prospect for growth in the next decade, based on a high expected rate of household formation. The rate of household formation in Kansas, however, may be lower than that for the nation as a whole, as Kansas experiences net outmigration of younger workers.[13]

Several of the potential growth industries representing from 1.0 to 4.0 percent of total private, nonfarm employment in Kansas and possibly representing sources of economic development for Kansas include printing and publishing; electrical and electronic equipment, instruments; communication; and hotels and motels. Absolute growth generated from these sources, however, will be modest, as these industries are not major employers in the state. While potentially a source of modest employment growth, communication should not be emphasized as a source of growth of income for the state because production by

that industry in Kansas is primarily for intrastate use. Kansas is not a major exporter of communication services as are, for example, California and New York.[14]

Growth industries representing more significant potential sources of economic development are metal working machinery (in Table 2, subsumed under "Machinery, except electrical") and plastic products. These potential growth industries constitute significant parts of the state's export base.

The largest two-digit private, nonfarm industry in the state, both in employment and in number of establishments, is health care. Information in Tables 1 and 2 suggests that health care will be a major source of employment growth in the next decade. This growth will constitute only a modest contribution of income to the state *unless Kansas health care providers can become successful in exporting their services to residents of other states.* Production for export in this case is quite possible if Kansas develops medical centers accepting referrals on a regional, rather than an exclusively intrastate, basis.

One must conclude, then, that the growth industries identified in Table 1 are only weakly represented in the current industrial profile of Kansas. Machinery manufacturing, plastic products manufacturing, and health services delivery represent the major exceptions to that generalization.

V. Growth Industries and the Future Kansas Industrial Profile

A. Interindustry Linkages

Growth industries generate increased capital investment and employment for those industries that provide their inputs. To determine the effects on Kansas economic development of the 19 potential growth industries identified in Table 1, one need only find the backward linkage from those industries to Kansas' major industries.

It would be exceptionally tedious for the reader to work through a reproduced input-output table here. The information employed in this analysis is presented in tabular form in Young and Planting (1983), pp. 69-77. Further, Paul Bylaska has transformed Young and Planting's dollar sales figure to percentage coefficients for the 19 industries in question.[15]

Unfortunately, the Department of Commerce's input-output tables do not use SIC industry categories in a consistent manner.[16] Therefore, it has been necessary to identify the input-output industries that most closely correspond to the growth industries identified according to SIC codes. These correspondences are shown in Table 3.

Tracing through the transformed input-output "purchases" columns for the potential growth industries reveals a clear, consistent picture for Kansas. Transportation and warehousing, wholesale/retail trade, and machinery (non-electrical) manufacturing are the major Kansas industries that are most often strongly linked to the projected growth industries. Chemical manufacturing and petroleum refining, representing much smaller shares of the Kansas industrial profile, also show strong linkages to several of the growth industries. Hotels and real estate sales were strongly linked to several industries but represent special cases, discussed below.

The criteria for inclusion in the above list, while subjective, were quite reasonable. In assessing instruments, for example, all of those industries comprising 1.0 percent or more of Kansas establishments employment and accounting for 1.0 percent or more of the instrument industry's purchases were considered. These were machinery (nonelectrical), transportation and warehousing, and retail/wholesale trade.

Upon applying these criteria, then, a clear picture of Kansas' future economic development emerges. The state's geographic location and its already highly developed transportation and wholesale industries provide an excellent basis for economic development serving growth industries. Employment and capital investment may experience rapid growth in the supply of materials, the shipment of these materials, and the shipping and

Table 3
SIC/Input-Output Industry Correspondences

Projected (SIC) Growth Industry	Corresponding Input-Output Industry
Residential Construction (152)	New Construction (11)
Lumber (24)	Lumber (20)
Printing and Publishing (2711, 2721, 2732)	Printing and Publishing (26)
Drugs (2833, 2834)	Drugs, etc. (29)
Plastic Products (3079)	Plastics and Synthetics (28)
Aluminum (3353, 3354, 3355, 3357)	Primary, Nonferrous Metals (38)
Metalworking Machinery (354, 356)	Metalworking Machinery (47)
Machinery, except Electrical (35)	General Industrial Machinery (49)
Electronic Computing Equipment (3573)	Office, Computing, Accounting Machines (51)
Consumer Electronics (3651)	Radio, TV, and Communication Equipment (56)
Telephone and Telegraph Equipment (3661)	Radio, TV, and Communication Equipment (56)
Electronic Equipment and Components (3662)	Electronic Components (57)
Instruments (38)	Professional Instruments (62)
Dolls, Games, Toys, and Children's Vehicles (3942, 3944)	(no appropriate classification)
Broadcasting (4832, 4833, 4899)	Radio and TV Broadcasting (67)
Telephone and Telegraph Services (4811, 4821)	Communications (66)
Hotels and Motels (701)	Hotels, etc. (72)
Automotive Services (75)	Automotive Services (75)
Health and Medical Services (80)	Health, etc. (77)

Source: Young and Planting (1983), p. 8.

warehousing of finished goods. While not "high-tech" activities, they are, for Kansas, "high-opportunity" activities.

The machinery (nonelectrical) industry presents an interesting situation. It is an activity in which Kansas has a substantial current involvement and an activity likely to grow rapidly, both because of growing demand by final users and because of strong linkages to other growth industries. If one examines the size distribution of firms in SIC code 35, however, one sees that the industry is comprised, overwhelmingly, of very small establishments.[17] In order for Kansas to realize the growth potential of this industry, either additional marketing activity must be coordinated for these establishments, or firms using the products of those firms must be induced to locate near clusters of these establishments (as in Wichita).

Hotel services and real estate sales are also activities that depend on the location of new firms for their growth. Growth of the broadcasting industry in Texas, for example, will contribute nothing to real estate sales growth in Kansas. Attention, then, must be focused on the possibilities of industrial relocation to the state.

B. Implications for Industrial Location

Earlier, three classes of industries were identified which are likely to locate in Kansas (lettering is retained from above):

(c) Growth industries locating in Kansas to enjoy some advantage inherent in such location.

(d) Growth industries using outputs of Kansas industries.

(e) Industries supplying inputs to growth industries now in Kansas.

The intervening analysis suggests that investment projected for (e), above, will be quite small.

The inherent advantages of location in Kansas were discussed at length in a study published last year in *Kansas Business Review*.[18] These advantages are based, principally, on the geographic location of the state (its proximity to markets). Again, this fact suggests that Kansas has excellent opportunities for attracting new transportation activities.

Also attracted by proximity to markets are manufacturing activities whose output has a high weight-to-value ratio.[19] As it is uneconomical to ship the heavy, but low-value, outputs of such industries, they tend to locate near their markets. Among the growth industries indentified here, machinery and plastic products fall into that class. Fortunately for Kansas, machinery production may be attracted to the state due to the presence of a labor force trained in that industry and due to input-output linkages as well as to geographical considerations.

Industries using the outputs of Kansas industries that have strong backward linkages to industries now existing in the state include the following (Kansas industries supplying inputs are shown in parentheses):

- drugs (chemicals)
- plastic products (petroleum refining, wholesaling, transportation)
- machinery (machinery, wholesaling, transportation)
- instruments (machinery, wholesaling, transportation).

These form a list of "immigrant" industries that might be the target of public and private economic development efforts. Note, however, that the attractiveness of Kansas for these industries is not uniform. For example, the state's attractiveness to the drug industry is not strong on the basis of input-output linkages alone (less than 1.0 percent of Kansas employment is engaged in the manufacture of chemicals). Efforts to attract the pharmaceutical industry to the state should stress, therefore, other considerations than backward linkages alone. Chief among these is the role of the state's universities in industry-relevant research.

VI. Discussion and Conclusions

The approach employed in this study can generate only rough projections of future investment and employment growth. Numerical forecasts must await the completion of the Kansas economic model.

With this limitation in mind, however, one can arrive at several generalizations about the growth prospects for the Kansas economy in the next decade:

- Kansas does not now have a high degree of investment in those industries most likely to grow rapidly in the next decade.
- "High-opportunity" industries for Kansas are not, primarily, "high-tech" industries.
- Machinery (nonelectrical) manufacture, transportation, and wholesaling are the major Kansas industries most strongly linked to potential growth industries.
- Machinery (nonelectrical) manufacture, plastic products manufacture, and transportation activities appear to be specific industries that can be attracted to Kansas and that can provide growth in employment over the next decade.

The economy of Kansas has developed on a stable export base (agricultural products) and a stable employment base (services, broadly defined). Growth in employment opportunities, however, will require expansion of industries (including service producing industries) that export their output, both to other states and to other nations.

To obtain maximum benefit from programs to attract growth industries to Kansas, efforts should be targeted to those most likely to find Kansas attractive. These are, primarily, those attracted by Kansas' location, by its transportation system, and by linkages to the existing industrial base of the state. The long-term benefits from success in such a targeted recruiting effort can, indeed, be great.

Footnotes

[1] This article is adapted from the Institute's Labor Market Information Project Monograph No. 12. The Project was funded by the Governor's Special Grant Component of the Comprehensive Employment and Training Act and was sponsored by the Kansas Council on Employment and Training and the Kansas Department of Human Resources.

[2] See Cohen, Zinbarg, and Zeikel (1982), pp. 412-419.

[3] For a complete discussion, see Leontief (1966). A briefer treatment can be found in Hoover (1971), Ch. 8.

[4] For a discussion of the relationships among input-output analysis, industrial location, and economic development, see Stabler (1970). For an application in a major study of an economic region, see Czamanski (1972).

[5] See Hadley (1961), pp. 103-107.

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[6] It is on this point that the current analysis differs from the national projections made by the U.S. Department of Commerce and by the Bureau of Labor Statistics. This study is concerned with economic growth in Kansas, rather than in the nation as a whole, and is based on the industrial profile of Kansas, rather than that of the United States.

[7] For an investigation of factors that promote and factors that retard the location of industries in Kansas, see McLean (1983).

[8] U.S. Department of Commerce, Bureau of Industrial Economics (1981); Naisbitt (1983); and Cohen, Zinbarg, and Zeikel (1982), Ch. 11.

[9] U.S. Department of Commerce, Bureau of Industrial Economics (1981).

[10] "Two-digit" refers to the level of aggregation under the Standard Industrial Classification (SIC) system. Table 2 uses the two-digit (highly aggregated) level. Note that industries identified in Table 1 are at several levels of aggregation: two-, three-, and four-digit levels.

[11] The export base of any region is that set of industries producing for sale outside the region, foreign or domestic (ratio of exports to imports greater than one). It is the region's export base, then, that generates income for the region. North (1970) was one of the first to focus attention on the role of the export base in generating regional economic development.

[12] U.S. Department of Commerce, Bureau of Industrial Economics (1981), pp. 334-343.

[13] The net outmigration of individuals 20-24 years of age from Kansas has been documented by the University of Kansas Institute for Economic and Business Research using data from the Bureau of the Census. See Redwood, Bhattacharyya, and Kleiner (1981), p. 8.

[14] In this regard, consider an interesting paradox. Charles Tiebot observed that the world exports nothing, yet the world economy grows (Stabler, 1970, p. 53). National income rises (at least to its supply constraint) when employment rises. For very small economic units (households and firms, for example), however, income depends on production for sale outside the unit. States and subnational reigons fall within the continuum of self-containment from firms to nations. Income in states and regions does rise when employment for local consumption rises. Ultimately, however, subnational regions (and nations with small economies) depend on export sales to maintain their incomes.

[15] These are available from the University of Kansas Institute for Economic and Business Research on request.

[16] See Young and Planting (1983), pp. 2 and 8.

[17] U.S. Department of Commerce, Bureau of the Census (1982), p. 6.

[18] McLean (1983).

[19] These are known as transfer-oriented industries. See Hoover (1971), p. 22.

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Appendix

(a) Dollar Values of Shipments

Producer	User					
	A	B	C	D	Final User	Total
A	100	20	30	40	500	690
B	0	40	5	5	20	70
C	75	75	75	0	100	325
D	25	25	25	25	200	300
Total	200	160	135	70	820	

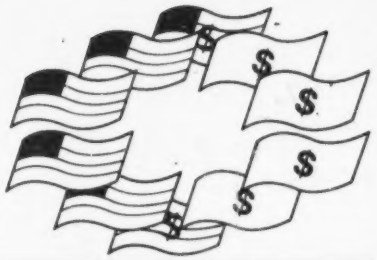
(b) Forward Linkage Coefficients

Producer	User					
	A	B	C	D	Final Users	Total
A	0.14	0.03	0.04	0.05	0.72	1.00
B	0.00	0.57	0.07	0.07	0.28	1.00
C	0.23	0.23	0.23	0.00	0.31	1.00
D	0.08	0.08	0.08	0.08	0.67	1.00

(c) Backward Linkage Coefficients

Producer	User				
	A	B	C	D	Final Users
A	0.50	0.13	0.22	0.57	0.61
B	0.00	0.25	0.04	0.07	0.02
C	0.38	0.46	0.56	0.00	0.12
D	0.13	0.16	0.19	0.36	0.24
Total	1.00	1.00	1.00	1.00	1.00

Politics and the Business Cycle



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Introduction

The creation, application, and subsequent evaluation of economic policy is an extremely complex social process. It involves, at least ideally, the entire citizenry, its leaders, various political and economic institutions, and usually some technical expertise as provided by economists. Given that the process is so multifaceted—even when viewed in general terms—it is best to consider first a theoretical description of the activity before comfronting the issue of how the implementation and course of economic policy are influenced by political considerations. Accordingly, Sections I, II, and III of this article discuss the business cycle, the effect of political influences upon it, and the results of applying to the 1980-84 Reagan economic record certain political business cycle theories, only after a discussion of the character and purpose of economic policy is presented in the remainder of this introductory section.

A commonly identified starting point in the process of developing and acting upon economic policy is the establishment of specific macroeconomic goals. It is the responsibility of the general public to construct, through debate and discussion, the economic ideals toward which society strives. Granted, then, that the public has some notion as to what goals should be pursued, it is the usual task of society's leaders to cull the public mind and thus extract and make clear the public's intent. Hence, it is the politicians' responsibility to rally the public and to identify, explicitly, specific economic goals to be sought under their leadership.

Obviously, stating a set of economic goals and instituting a leader capable of guiding the public toward such goals does not guarantee their attainment. Usually, economic goals are not automatically achieved, especially when numerous goals are to be pursued or realized simultaneously, and the various ends which policy is intended to serve create a problem for political leadership. Its likely response will be to select a specific plan, i.e., a policy designed to secure or at least approach a specific economic goal or goals. It is at this point, therefore, that the politician will turn to the economist for help.

For any particular economic goal, the economist will, in general, present a set of alternative economic policies that might be used to achieve it. And, for each of those policies, the economist will discuss the costs and benefits of their use, provided the goal they are designed to obtain is economically feasible. Feasibility of an economic goal, however, will depend on a number of factors, such as market institutions, the public's expectations, and available technology. More specifically, for example, some of the goals defined for a free market economy could not be pursued in a planned socialist economy and vice versa. Finally, for each goal to be sought, the politician must select a policy that is also politically feasible as dictated by the political-administrative institutions he/she operates in. It is important to keep in mind that in the attempt to select the best economic policy, the politician is confined by the institutions, economic and political, he/she performs within. Thus, both economic and political feasibilities will influence the final decision given that economic feasibility does not insure political feasibility and what is possible politically may be impossible in economic terms. Provided, however, that an effective policy is selected, the politician's problem is solved in that the goal is, at least, satisfactorily approached. The politician's problem remains if a policy is chosen that is, in practice, futile. Then the search for a new policy begins anew.

Some of the more widely, though not universally, accepted economic goals of our society are: full employment, price stability (or a constant rate of inflation/deflation), an external trade balance, economic growth, an equitable distribution of income, and provisions for the chronically ill, disabled, aged, or otherwise dependent. These are, perhaps, the most valued goals over the last four or five decades. Certainly other goals exist such as a balanced federal budget, insuring equal economic opportunity, and securing adequate economic freedom (via degrees of laissez faire). Most of the goals mentioned here beg interpretation and, as a result, are frequently translated into target values, provided they are subject to reasonably accurate measurements. On the other hand, some goals cannot be specified by objective target values due, in part, to the problem of measurability. For example: How should society measure economic opportunity? Is opportunity something that can be measured? A goal more conformable to measurement might be that of an equitable income distribution. In this instance, certainly income distributions can be explicity determined. But the question of what constitutes an equitable distribution would likely be subject to unending debate as was evident in the 1984 presidential election; everyone, it seems, has an opinion as to what an "equitable distribution of income" means. It is unlikely that society would ever agree on a particular distribution of incomes as being equitable and thus pursue it as a goal target. (There may be, however, some income distributions which we agree are not equitable and thus should be avoided.)

As a final example, consider the goal of full employment. The level of employment is readily measurable, but what constitutes full employment is less clear. However, unlike the problem of deciding on an equitable distribution of income, the establishing of a full employment target is less subject to value judgments or, at least, less subject to diverse opinion as to what the target value should be. One reason for this situation is that a full employment target (usually referred to as the "natural rate of unemployment") can be determined via an estimation technique. How this target should be estimated will likely be subject to some debate but, probably, less so when compared to other goals for which targets can be established.

The point of these examples is that merely stating economic goals may not enable society to narrow its focus sufficiently so that it can effectively pursue those goals. Specifying target values for goals, where that is possible, helps to concentrate the politician's, policymaker's, and public's efforts in striving for the goal. The determination of target values involves a process nearly identical to that process in which the goals themselves are established—debate and discussion with con-

siderations made for economic and political feasibility.

Four goals—full employment, price stability, a balanced current account, and growth—are perhaps the most easily monitored and measured. One way of viewing economic stability would be to define it as a point in time when the goals of full employment, price stability, and external balance are attained simultaneously (a short-run macroequilibrium might similarly be defined). The maintaining of full employment, a balanced current account (on average), a relatively constant positive growth rate, and stable prices over time might be seen as a long-run or dynamic sort of economic stability.

The meaning of economic stability has, in a sense, evolved over time. During the thirties, the attainment of full employment was a close approximation to having achieved a stable economy. The late forties and fifties saw more emphasis placed on realizing, in addition to full employment, greater economic growth. Thus, stability involved both low unemployment and positive growth. Economic stability in the late sixties and seventies added price stability. Finally, the eighties have seen ever greater competition in the world economy, and, as a result, external balance over time becomes—in addition to full employment, positive growth, and constant inflation—a component of a stable economy.

Perhaps the most pressing problem facing today's political leader is the problem of achieving economic stability as currently understood. Hence, the attainment of stability is essentially equivalent to achieving the goals of full employment, external balance, and price stability more or less simultaneously; the goal of short-run stability condenses three goals into one. Long-run stability would also incorporate a positive, nearly fixed, growth rate. Thus, economic stability implies something about the short-run trend (the current business trend or business cycle) as well as the long-run or secular trend. The short-run trend or short-run stability is more concerned with the quarterly or yearly changes in prices, employment, and trade accounts, whereas the long-run trend or long-run stability is more concerned with growth in output or real income over a number of years. Long-run stability deals with combining short-run stability with economic growth over several years. Goals other than economic stability are no less important, but they appear to be less conformable to measurement and may even be more difficult to solve, given current institutions, than the goal of stability. Hence, this study concentrates on the problems of achieving short-run economic stability. Again, any policies designed to gain economic stability must satisfy the constraints imposed by both economic and political institutions.

I. The Business Cycle

The elimination or, at least, the mitigation of the business cycle can be seen as the attainment of short-run economic stability. Consequently, purging the economy of cyclical swings in economic activity would approach a condition of steady employment (nearly full) and inflation (quite low). An external balance might also be simultaneously achieved. But eliminating the business cycle would not mean the automatic attainment of secular growth. Discussions on eliminating the business cycle are comparable to those on achieving short-run economic stability which, in turn, are similar to discussions on achieving stable employment, prices, and a balanced current account.[1] That is, the goal of short-run economic stability is nearly synonymous with the goal of abolishing the business cycle. The politician, therefore, must be concerned with those factors that produce a business cycle, i.e., those factors that thwart obtaining economic stability in the short run.

There exist numerous, widely varied explanations of business cycles. Economists typically identify business cycle theories as endogenous or exogenous. Endogenous theories see the business cycle as being generated by forces within the economy itself; the exogenous theories view the cycle as caused by forces outside of the economic system. However, most business cycles are a result of several, often interrelated, forces—both endogenous and exogenous.

Some of the better known endogenous theories include the following. J.M. Hicks developed a business cycle theory by considering the interaction of the accelerator and the multiplier.[2] This theory attempts to explain the relationship between changes in the level of investment and changes in the level of income, i.e., increasing investment tends to increase income through the multiplier, and this effect works through the accelerator to induce still more investment, and so on. Pigou posited a psychological theory which treats the business cycle as an instance of optimistic and pessimistic expectations influencing the economy. Robert Lucas suggests a representative agent with rational expectations engaged in signal processing, that is, attempting to distinguish relative and general price movements. Confusion, on the part of the agents, over relative and general price movements may result in initiating a business cycle.

As well, several economists have set out underconsumption theories. Here the notion is that too much income flows to the wealthy (or frugal), letting a larger than useful savings fund accumulate—investment falls short of savings and a downturn results. The overinvestment theories claim too much investment causes recessions while the overexpansionists point to overproduction, in general, as the key culprit in causing a recession. Monetary theories of business cycles may be either endogenous or exogenous but tend to attribute the cycle to the contraction and expansion of bank credit.

Finally, Assar Lindbeck (as well as other economists) offers several alternative ways in which governmental/political behavior becomes an internal source of business fluctuations. His analysis is couched within an institutional framework similar to that presented in the introduction of this article. Since all economic policy must filter through economic and political institutions, Lindbeck argues, how politicians react to future economic and political events will most likely influence current economic activity and may be motivated by only political considerations. Hence, we might view those instances in which business cycles result from political motives as political business cycles. Such cycles might be seen, like the monetary theories, as either endogenous or exogenous. Such a perception would depend on how one views the proper role of politicians. Insofar as politicians base their policy decisions on the economic needs of the public or on their own personal needs, one can view the political business cycle as endogenous or exogenous, respectively.

The exogenous theories often tend to be slightly extraordinary. Some of the commonly listed external forces that influence economic activity are wars, natural disasters, revolutions, gold discoveries, discovery of new resources and new lands, migration, and changes in population growth rates. Stanley Jevons linked the business cycle to the appearance of sunspots every seven to ten years. He assumed that with the sunspots came excess radiation which affected crops and, thus, the economy. Joseph Schumpeter advanced a business cycle based on the appearance of new innovations. Though Schumpeter's theory considered the application of new inventions as endogenous, many theorists consider it to be exogenous. Schumpeter's cycle derives from periodic clusters of innovation, e.g., railroads, automobiles, and computers, and their subsequent development directly and indirectly through related products. New tech-

The goal of short-run economic stability is nearly synonymous with the goal of abolishing the business cycle.

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nologies, either internally or externally motivated, may contribute to the cycling of business activity. This list of exogenous theories is only partial, but it imparts the essential notion of external economic influences. And indeed, the distinction between endogenous and exogenous influences is not such a hard and fast one—this is especially so in the realm of political, technological, and monetary activities.

Certainly a market economy will act and react in certain ways to certain external forces. Such feedback effects could, over time, obscure the dissimilarity between purely external and internal events. Most economists feel business cycles result from a combination of internal and external forces with a good deal of emphasis placed on the volatility of investment activity and the subsequent changes in income.

II. The Political Business Cycle

Even attempts by politicians to counter economic instability—for example, attempts to forestall a recession—may contribute to exacerbating the business cycle. This may be especially true for a nation whose economic policy is instituted relative to both economic and political considerations. Politicians, either through their own devices or the design of their office, may be their own greatest source for destabilizing the economy. Some economists feel that the greatest sources of economic instability stem from political/governmental elements while others feel that the government's actions are the best means for obtaining stability in a market economy. Hence, the political business cycle can be seen from two angles. One is that many business cycles are primarily caused by politicians as they attempt to achieve various economic priorities. The other is that any long-run stability results only from governmental policy designed to achieve such.

One of the earliest political business cycle theories was given by M. Kalecki during the forties, a time when political abuses of the Keynesian revolution were of an increasing concern. Kalecki was concerned with the political problems involved in the achievement of full employment. He suggested that the "captains of industry" might be opposed, for a number of reasons, to a "doctrine of full employment." He also suggested that such a doctrine would require government intervention in at least two key realms of economic activity: adjusting public investment and subsidizing private consumption. But the "leaders of industry," Kalecki proposed, fear that the former would lead to nationalization of certain industries or would, at least, alter their competitive position. The latter, it was feared, would weaken the moral fabric of capitalism and, consequently, diminish the work ethic. Hence, in Kalecki's model, business leaders scorn governmental programs designed to bolster private consumption on the grounds that such programs would promulgate the public demand for a free lunch approach, thereby eroding work effort and productivity. Finally, full employment would bolster the position of the working class. Unemployment would cease to be a disciplinary tool; strikes for greater wages and safer working conditions would generate political tension.

Thus, in summary, Kalecki's political business cycle works as follows. He places in opposition the leaders of industry to the working class. Further, he assumes that the former sees unemployment as a natural part of the "normal" capitalist system and that they favor discipline in the factories and political stability over (maximum short-run) profits. And the working class, he assumes, seeks full employment and sufficient job security. The government is placed between these two groups, one seeking employment to motivate worker discipline, the other seeking no unemployment.[3] Supposing an initial situation of an economic slump, then "under the pressure of the masses" (the working class), Kalecki sees the government increasing public investment and consumption and, hence, employment. Continued government efforts to achieve full employment (the workers' goal), however, will meet the opposition of the business community—fearing increased government interference and greater blue collar bargaining power. Such opposition would eventually mount, and the government would then be moved to moderate or eliminate employment programs—thus (possibly) increasing unemployment and workers' discipline (the business leader's goal). The end result may be a return to a slump condition where the cycle would begin anew. In Kalecki's model, economic activity mirrors the relative political strengths of workers and capitalists (entrepreneurs and owners). Thus, his model expresses the class struggle through the political and economic institutions in the form of political business cycles.

William Nordhaus in 1975 presented a political business cycle model designed to explain the movements of both unemployment and inflation over time. It is interesting that, in Kalecki's analysis, inflation receives little consideration yet, with Nordhaus, through the Phillips curve, inflation as a problem of economic instability is on par with the problem of unemployment. Given such an approach, he examines the dynamic relationship between unemployment and inflation. He assumes that consumers prefer stable prices and low unemployment rates to high inflation and unemployment rates. Further, households are largely unaware of any trade-off between inflation and unemployment, i.e., citizens are ignorant of the structure of the economy. Nordhaus also assumes that the political structure is composed of only two parties: the party in power and the party out of power. From that assumption, Nordhaus argues that individual voting behavior is based on a comparison of the expected performance of the party in power to its actual performance. If, since the last election, the actual performance of the incumbent party exceeds the voter's expectations, then the voter will vote for the party in power. If not, the vote goes to the opposition. Hence, the average voter knows little about the economy but has formed some ideas (expectations) concerning the capability of political parties to achieve certain economic goals —low inflation and unemployment rates.

In this scenario, Nordhaus' conception of the role of political parties is straightforward. Political parties, he states, are interested only in winning elections, and they know, perfectly, voter preferences: "The government therefore chooses economic policies during its incumbency which maximize its plurality at the next election." Nordhaus also assumes, quite realistically, that, on election day, voters' memories of "recent events are probably more poignant than that of ancient ills." Thus, politicians will seek to achieve economic goals (i.e., win votes) as elections draw near.

The politician's problem is to make decisions over the election period (term in office) so as to maximize favorable votes at the next election. It is assumed that the politician is fully aware of voter preferences relative to unemployment and inflation and knows that, at least in the short run, there exists a trade-off between inflation and unemployment as exemplified by a Phillips curve.

Nordhaus finds that the optimal solution to the politician's problem dictates that a path be followed immediately after an election that will increase unemployment to a relatively high level in order to fight inflation. But, as the next election draws near, the politician would move to reduce unemployment (and inflation would increase). Thus, going into an

election, unemployment would be decreasing with inflation increasing. The election winner (incumbent or other) will likely inherit an inflation problem and will repeat the policy pattern of first fighting inflation then unemployment. Such a pattern will yield the greatest number of votes at the next election. And so goes Nordhaus' political business cycle. Assuming elections every four years, Nordhaus' model suggests time paths for unemployment and inflation rates like those given in Figure 1. These patterns result from politicians seeking to obtain economic goals in such a way as to maximize their chance for reelection.

Assar Lindbeck offers a model similar to Nordhaus', though much less formal. Lindbeck assumes that politicians make decisions based on both short- and long-run considerations. The long-run considerations are more normative in character. Here politicians place greater emphasis on the general good of the society as a whole and, therefore, see themselves as well informed guardians of the long-run public good. However, the short-run considerations are far less idealistic. Short-run considerations are, principally, those made to win elections. As Lindbeck puts it, these considerations are founded upon the politician's own welfare. Here the politician might be regarded as "an entrepreneur selling policies for votes instead of products for money." Hence, over the term of office, the politician will more than likely shift policy emphasis toward political factors. Initially, long-run considerations will dominate but will give way to short-run, electoral considerations.

Lindbeck assumes, like Nordhaus, that voters have short memories—recent events are more important for the popularity of the government than events farther in the past. Further, he assumes that voters are largely ignorant of the future effects of post-election economic policy. He also posits that the popularity of the existing government depends on real household income, inflation, unemployment, and the current account of the balance of payments and their rates of change. Clearly, the popularity of a government depends on many of the same variables that serve as the focus of economic stability; hence, the politician can garner considerable popular support by pursuing a stable economy. Lastly, Lindbeck assumes falling marginal utility with respect to income, inflation, unemployment, and current account deficits, i.e., voters attain less and less additional satisfaction from, for example, declining unemployment or rising income.

Lindbeck's political business cycle is relatively simple. Given the falling marginal utility assumption and the existence of exogenous disturbances, the problems of inflation, unemployment, and current account deficits will "succeed each other as 'the Enemy Number One of the country,' thus, generating a stop-go policy cycle in response to factual events." For example, suppose there exists a situation of high unemployment and low inflation. Any successful attempts by policymakers to reduce unemployment will, in the short run, result in higher inflation. In fact, continued successful attempts to cut unemployment will elevate the rate of inflation. In time, policymakers will be compelled to shift their emphasis from the unemployment problem to the inflation problem. Policies designed to lower unemployment will stop; policies designed to counter inflation will start. Taking account of the real income variable, the closer the nation is to an election "the more inclined the government is to take expansionary actions." Lindbeck suggests that governments can easily buy votes by temporarily raising household incomes. Such attempts to buy popularity involve direct tax cuts and increases in either or both transfers and public consumption. The timing of elections and the degree of any policy effectiveness will dictate the surge in real income.

Nordhaus provided an empirical test of his model. His model predicts that post-election policy will be designed to fight inflation, the result being some success with increases in unemployment. Then policy will shift to fight increasing unemployment with prices rising into the next election. The test requires periodic competitive elections, sufficient guidance of the economy by policymakers, and that voters evaluate policies only over the electoral period. Nordhaus found a pronounced coincidence of the business cycles and political elections (i.e., a possible political business cycle) for the years 1947 to 1972 in Germany, New Zealand, and the United States. Modest indications of a political business cycle held for France and Sweden. However, as a description, the theory seems to be implausible for Australia, Canada, Japan, and Great Britain.

Edward Tufte, in support of Nordhaus, found for the United States that, in the main, "unemployment has bottomed out every fourth November." Further, he found that unemployment rates 12 to 18 months prior to the election exceeded the election day rate in six out of the last eight presidential elections. He also found a tendency for both inflation and unemployment to decrease in presidential election years and for both to increase in nonelection years (see Figure 2). For the years 1947 to 1976, excluding 1953 to 1959 (the Eisenhower years), Tufte found per capita real disposable income to grow at a greater rate during those years in which an incumbent president is seeking re-election—3.4 percent on average. Midterm election years experi-

Figure 1
Political Time Paths for Unemployment and Inflation Rates

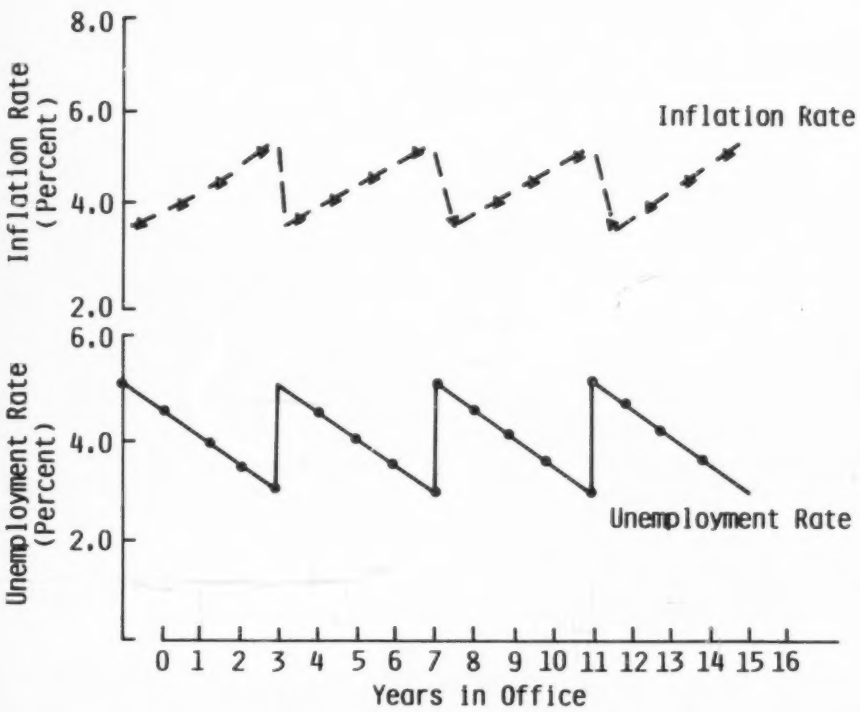
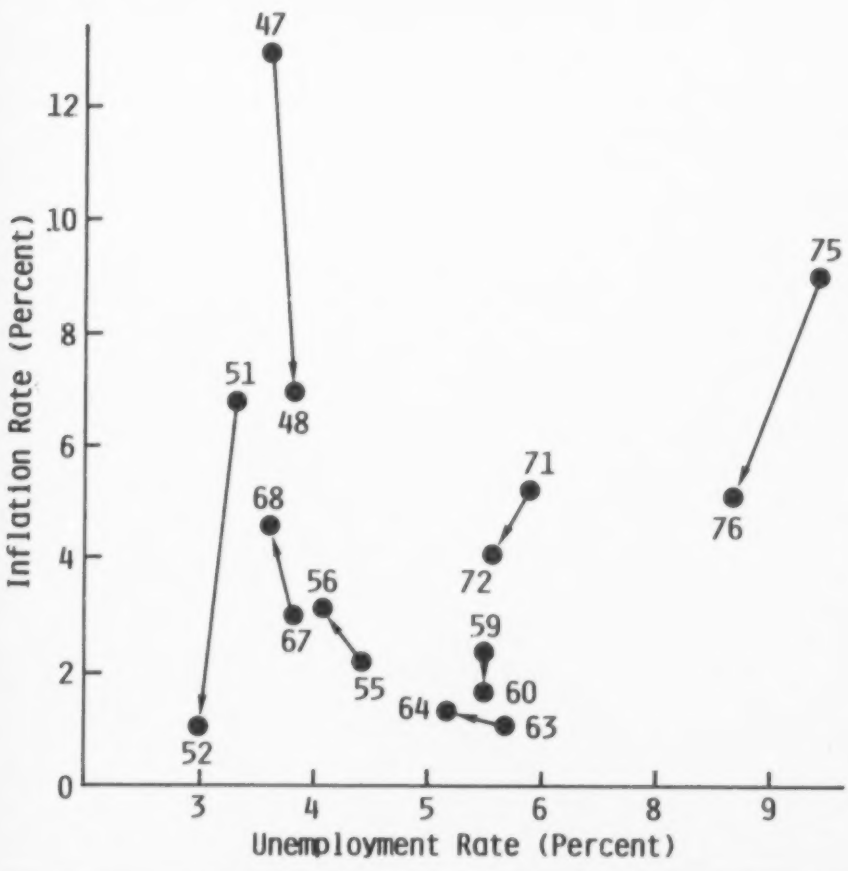


Figure 2
Movements of Unemployment and Inflation Rates in Presidential Election Years and Pre-Election Year: 1947-1976



enced 2.3 percent growth, while nonincumbent presidential election years saw 2.0 percent growth. Nonelection years had average growth rates of 1.5 percent, so there does exist some evidence that incomes increase faster in "important" presidential election years. Including the Eisenhower years, the years involving the election of an incumbent president had growth rates of 3.3 percent. The median rate of growth in real disposable income per capita (RDYPC) was 1.7 percent in all other years. Tufte suggests an electoral-economic cycle from 1948 to 1976 (exclusive of Eisenhower's years) consisting of a two-year cycle of RDYPC, with greater growth in even years and less growth in odd years, and a four-year presidential cycle in unemployment, with declining unemployment in the months prior to the election and increasing unemployment starting close to a year afterwards.

Though Tufte's work is largely empirical, his basic thesis is that "the greater the electoral stakes, the greater the economic stimulation" and that post election priorities dictate deflationary policies. After considering the data, Tufte concludes "that certain substantial macroeconomic fluctuations are simply the product of the routine rhythms of political life."

III. The Reagan Political Business Cycle

The Reagan Administration entered office facing an unemployment rate of about 7.4-7.5 percent and holding; inflation was over 11 percent and increasing. The year prior to Reagan's inauguration saw rising rates of unemployment and inflation. But in January 1981, it was clear that inflation, *vis a vis* unemployment, was a more pressing economic issue. Reagan's "public-enemy-number-one" was obvious—inflation. His strategy for fighting it represented a rather curious policy mix: Reagan successfully reduced income tax rates (though social security taxes and other taxes have increased), cut spending on numerous social programs, and deregulated certain industries. With the exception of cutting taxes, it is fairly clear that these policies would help to reduce the rate of inflation, but not to the extent that it has actually fallen. The fight on inflation has largely been conducted by the Federal Reserve, where Reagan's role has been indirectly one of support. The Fed succeeded in reducing the rate of money supply growth, and the result was a monetary tightening and a new recession—the worst in decades. However, Reagan, even from the beginning of his term, pursued numerous expansionary policies, e.g., his last two tax cuts of 10 percent and the sizeable increase in defense spending. The net effect of Reagan's approach has been an increase in the national deficit from nearly 60 billion in 1980 to an estimated 174 billion in 1984. Federal spending now amounts to nearly 24 percent of the nation's GNP, an all peacetime high. It appears as if Reagan's fiscal policy has been, more than anything else, inflationary. Yet the key to Reagan's fight against inflation seems to have been his willingness to tolerate the Fed's tight money policy (from late 1981 through most of 1982) which, in turn, ushered in the recession—outweighing any expansionary effects of his fiscal policy.

Reagan's approach to the unemployment problem has been less indirect than his approach to the inflation problem. Instead of moving to a balanced budget, Reagan has sought expansionary fiscal policy as manifested by increasing federal deficits. Since late 1982 and early 1983, the Federal Reserve has lessened its grip on the money-supply growth. The result has been lower interest rates. And since the last quarter of 1982, the rate of unemployment has declined for nearly every quarter. At the same time, the rate of inflation has stayed surprisingly low and steady, with only slight increases. With respect to the time paths of inflation and unemployment, it would appear as if Reagan's policy pattern has fit the pattern that might generate a political business cycle—that being, post-election deflationary policies followed by expansionary policies as a re-

... it may be that the policies of the Federal Reserve better explain the movements of unemployment and inflation than do Reagan's discretionary economic policies.

It may be the case that politicians are more capable of initiating economic instability than controlling it once it appears.

election draws near (see Figure 3). But it may be the case that the policies of the Federal Reserve better explain the movements of unemployment and inflation than do Reagan's discretionary economic policies.

During Reagan's term in office, the trade balance has, on average, grown worse. Record trade deficits have been experienced and probably will remain a problem as long as the government deficit grows. Real disposable income has not grown significantly since 1981, due in large part to the recession, but it has grown 6.0 percent since the first of this year, more growth than in any of the previous three years. Those who adhere to a political business cycle view would likely not be surprised by this development. In summary, it seems that the business cycle, since late 1980, might be described as a political business cycle, i.e., a business cycle resulting largely from political factors. However, it may be that the political factors have been more indirect in nature and largely aimed at the Federal Reserve versus the more traditional channels, e.g., tax cuts and various spending programs. Though many economic variables since Reagan's initial election have moved along trends similar to those predicted by the political business cycle models, it is not perfectly clear that Reagan's discretionary policies are completely responsible for such movements.

The current situation of relatively low inflation and unemployment (though historically both might be considered as relatively high) makes it difficult to suggest what Reagan will do once the new presidential term begins. Reagan has been successful in both reducing unemployment and controlling inflation; that is, he has not had to inflate the ecomony to achieve 7.5 percent unemployment. Instead, he has increased the size of the deficit which may result in his losing his grasp on inflation. If it worsens by January, it is likely that it will be the President's key concern and that policies will be launched to counter it (possibly policies designed to cut the deficit). However, if inflation remains static through the fall and winter, it is difficult to say what will be done in terms of policy priorities. It may be that the policies of the Federal Reserve, come January, will be just as significant in determining the economy's direction as the policies of the President.

Finally, a large part of the federal deficit has been financed by an influx in foreign monies into the United States, as evidenced by the record trade deficits. Should foreign countries in the future be less willing to continue this trend, it is likely that the Federal Reserve would be induced to increase the money supply growth rate (see "The National Review" in this issue for further discussion of this point). Though the rate of inflation appears to be under control, that control is of the most fragile kind. Continued government deficits coupled with Reagan's intention to hold taxes will eventually lead to inflationary forces not easily controlled. Hence, if the deficit is not cut or if foreign lending drops or both, the Federal Reserve will probably print more money to cover government expenditures. The result will be greater inflation and, in the short run, a decline in unemployment. The President's first challenge, therefore, will quite possibly be that of controlling price increases.

IV. Conclusions

Most people's common sense suggests that the instituting of economic policy is based, to some extent, on political considerations. But in a predominantly free enterprise economy, the influence of even the most powerful policy tools may be insignificant. Policymakers have some capacity to guide the economy, to be sure, but that capacity is limited and subject to uncertainty and various time lags. Even if a "political business cycle" is identified, it is not certain that politicians are, indeed, completely responsible for it. There may be forces other than political variables that better explain the movement of the economy during a so-called "political" business cycle. As sug-

Figure 3
Unemployment and Inflation Rates During Reagan's First Term

gested earlier, it may be the case that politicians are more capable of initiating economic instability than controlling it once it appears.

Some of the suggestions made by economists for dealing with instability are aimed at the economic system, the political system, or the intersection of the two. Lindbeck offers for consideration reform of the election period, depoliticizing some policy agencies, and realigning policy instruments and responsibilities among local, national, and international authorities. He also suggests that the government "'bribe' firms to hoard unnecessary labor during recessions" and also suggests economic reforms designed to make inflation more sensitive to reduced capacity utilization and less sensitive to increased capacity use. Nordhaus makes the following suggestions: improve the information available to the public so that they can better evaluate and judge short-run economic policy proposals, entrust economic policy to nonpartisan persons (this would shift policy responsibility from politicians and may lead to the neglect of certain social problems), institute income policies designed to reduce the unemployment/inflation trade-off, and create a planning agency as a means to broaden the base of participation in policymaking. Finally, Kalecki felt that the political business cycle could be mitigated if capitalism would develop "new social and political institutions" designed to incorporate the increased power of the working class.

Footnotes

[1] One can assume that money wages are sufficiently flexible so that the level of employment is stable when the labor market approaches full employment.

[2] The multiplier indicates the magnitude by which a change in exogenous spending will change income. For example, the investment multiplier is determined to be 2.0. Thus, we would anticipate a two dollar increase in income for every dollar increase in investment spending. The accelerator principle captures the relationship between output and investment. Increases in consumption or output will lead to increases in investment.

[3] Entreprenuers would seek unemployment only up to a certain level. The gains to firms derived from higher unemployment and, hence, greater worker discipline (productivity) would begin to decline as output by the firm falls in response to greater unemployment. Profits would fall at excessive levels of unemployment.

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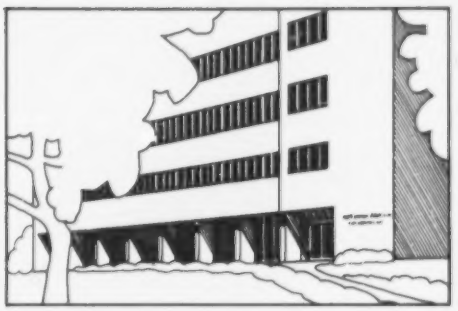
The Small Business Institute at the University of Kansas



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Dr. Taylor is an Associate Professor of Strategic Management and the Director of the Small Business Development Center (SBDC) and the Small Business Institute (SBI) at the University of Kansas. Joyce Claterbos is the Assistant Director of the SBDC and the Coordinator of the SBI. **The following article is published as a service to the small business community in Kansas and the region in an effort, generally, to focus the contents of *Kansas Business Review* more directly upon the needs of this vital economic sector and, in this particular instance, to alert small business owners and operators to the services available at the SBI.**

Introduction

Since its inception in 1953, the U.S. Small Business Administration (SBA) has been working through its field offices to alleviate the problems faced by small business. The more than 100 field offices provide financial assistance, management counseling, and training for small business management. Because statistics show that most small business failures are due to poor management, SBA places special emphasis on improving the management ability of small business owners and operators. Counseling programs established by SBA's Management Assistance staff include the Service Corps of Retired Executives (SCORE), the Active Corps of Executives (ACE), SBA Resource Centers, Small Business Institute (SBI) Programs, Small Business Development Centers, business management training courses, and international trade counseling and training. All these activities are sponsored by SBA in an attempt to leverage its federal funding into as much management assistance as possible for small businesses.

In Kansas, management assistance for small business is sponsored by the Small Business Administration through four separate but cooperating programs. These four programs are SCORE/ACE, SBA Resource Centers, the Kansas Small Business Development Centers, and the Small Business Institute Programs at various universities. All programs are available to both current or potential small business owners or operators, and the assistance is free or at minimal cost.

In the SCORE/ACE programs, volunteers with business experience advise current or potential business owners or operators on business problems. SCORE volunteers are retired executives whereas ACE volunteers are currently active in business.

SBA Resource Centers have been established at most Chambers of Commerce, some universities, and at some city and county offices. A small business owner/operator can obtain brochures listing SBA publications that can help in the management of business. These publications, written by experts in each field, vary in their degree of specificity, and some are free while others have associated prices.

The Kansas Small Business Development Centers were started in Kansas in November 1983.[1] The Centers serve as focal points, linking federal, state, and local governmental resources with resources of the sponsoring university or college and the private sector. Through the Centers, a small business can receive assistance in the areas of finance, management, and operations. The Centers were designed to counsel, to train small business owners and operators, and to disseminate technical information through providing research and developing libraries oriented to small business needs and concerns.

The Small Business Institute Programs also operate through universities and are funded by yearly, renewable grants from the Small Business Administration. The SBI program format allows groups of students to act as on-site consultants to current or potential small business owners/managers. The students work under the guidance of professors from various courses, usually from within the schools of business. The grant provides a limited budget for expenses (travel, telephone calls, postage, etc.) incurred by the projects and for a coordinator for the program. The coordinator's function is to seek out potential users of the program and to coordinate reporting paperwork to and from the Small Business Administration.

The Small Business Institute Program began at the University of Kansas during the school year, 1975-1976. The original director of the program was Dr. Robert Swinth; since 1979, Dr. Marilyn Taylor has been the director. During the seven years since the inception of the Program, over 350 students have served as members of the counseling teams working with almost 100 businesses in eastern Kansas. The following section provides a descriptive summary of an illustrative sample of these projects which indicates the scope of the management assistance problems faced by small businesses in this region. The report concludes with a brief profile of the kinds of businesses receiving assistance, their needs, and their feedback concerning the quality of aid provided them.

I. Summary of University of Kansas SBI Projects: 1975-1982

This report summarizes the results of the group projects undertaken by the University of Kansas business students from 1975 to 1982. The projects were completed for small businesses in Douglas, Wyandotte, and Leavenworth counties. Most of the information summarized has been drawn from the final written reports prepared by each student team for its client. Five aspects of the projects are discussed:

During the seven years since the inception of the Program, over 350 students have served as members of the counseling teams working with almost 100 businesses in eastern Kansas.

- The type of business (e.g., retail, manufacturing).
- The type of clients (e.g., sole proprietorship).
- The type of problems addressed by the SBI team.
- Current status of the business (active or inactive).
- Feedback from clients, 1982-1983.

A. Type of Business

Table 1 summarizes the businesses by type. Note that several businesses participated in more than one type of business. Column four provides for comparative purposes the national statistics of percent distribution of firms, as shown by the Small Business Administration's Small Business Data Base (SBDB). The SBDB contains information on 5.5 million firms, virtually all U.S. small businesses with employees using the credit markets.[2]

Businesses in retail trade were the largest user of the SBI program at KU and were 43 percent of the sample. These businesses included clothing stores, a drug store, music shops, computer stores, mechanical parts and equipment stores, florists, sports equipment retailers, and gift shops. It is interesting to note that retail trade is a much smaller percentage of small business nationally, as shown by the SBDB.

Service businesses were the next most likely to seek management assistance from the SBI program, constituting 36 percent of the program's clients. The 55 service businesses included printing/copying centers, credit unions, restaurants, hair salons, consultants, and a private primary school. The SBDB shows 23.4 percent of all small business firms are service companies, 15.6 percent less than this sample.

Table 1
Distribution of Clients by Type of Business

Type	Number of Companies	%	SBDB %
Retail Trade	66	43	29.1
Service	59	39	23.4
Manufacturing	21	14	8.6
Construction	3	2	14.2
Wholesale Trade	3	2	10.0
Other	0	0	14.7
Total	152	100	100.0

SOURCE: U.S. SBA, Office of Advocacy, Small Business Data Base (SBDB).*

Table 2
Clients by Legal Entity

Legal Entity	Number of Clients	%	National %
Sole Proprietorship	19	27	75
Partnership	11	15	8
Corporation	38	54	16
Non-profit Organizations	2	3	–
Cooperative	1	1	–
Total Firms Reporting	71		

Source: U.S. Dept. of the Treasury, Internal Revenue Service, SOI Bulletin 2(4), Spring 1983, Table 6.

Although only 8.6 percent of small business nationally is manufacturers, manufacturing businesses were 14 percent of the firms seeking management assistance from KU's SBI program. These local businesses manufactured a variety of products, including chemical compounds, trophies, metal work, and soy products.

The three construction firms were 2.0 percent of the clients of the SBI program, while nationally, construction is 14.2 percent of all small business. Two of the three construction firms were engaged in residential solar or energy conservation construction.

Wholesale trade was also only 2.0 percent of the clients of the program, while representing nationally 10 percent of all small business. Only one business in wholesale trade was exclusively a wholesaler, while the other two also sold their products retail.

B. Type of Client

The KU SBI clients were more likely to be incorporated than is suggested by the national distribution. As well, fewer sole proprietors and partnerships requested assistance than the national business distribution would suggest (see Table 2).

Small corporations may be more willing to seek management assistance either because more than one or two people are involved in the financing and operation of the business or because owners/operators may be less concerned about confidentiality of financial and proprietary data. Small corporations may also be operated by managers, rather than owners, and those managers may be more willing to bring in outside assistance.

C. Type of Problems Addressed by SBI Teams

The word "problem" is to some extent a misnomer. In many cases, the requesting business sought to improve already adequate operating systems. In some cases, the business sought help in gathering information about new product lines or new ventures beyond current operations. For purposes of this analysis, however, the word "problem" is applied to all requests for assistance. The SBI teams counseled 88 businesses on 278 problems. Table 3 shows the exact distribution of problems for each business segment. These problems can be divided into five problem areas: 1) financial control, 2) market research, 3) business planning, 4) inventory control and distribution, and 5) personnel.

Financial control included the problems of cash flow, general financial analysis, accounting, and bookkeeping. All types of business had problems in financial control, the second most requested area of management assistance. The construction businesses appeared

Table 3
Distribution of Problems by Type of Business

Problem	Service	Retail	Manufacturing	Contracting	Wholesaling
Market Research					
Market Survey	24	32	11	1	3
Sales, Promotion and Advertising	21	26	9	1	1
Financial Control					
Cash Flow and Financial Analysis	19	15	9	3	–
Bookkeeping and Accounting	6	9	2	–	–
Business Planning					
Management Planning System	12	9	7	3	–
Feasibility Study	10	6	2	–	–
Inventory Control and Distribution					
Inventory Control	4	12	3	–	–
Purchasing	2	4	1	–	–
Transportation	–	–	2	–	–
Personnel					
Personnel	4	5	–	–	–
Total Number of Problems	88	118	46	8	4

to find cash flow and financial analysis critical, while not requesting any assistance with bookkeeping or accounting. Service, retail trade, and manufacturing businesses all received more assistance with cash flow and financial analysis than with bookkeeping and accounting. Wholesale trade businesses did not receive any financial control assistance.

More than half of all management assistance problems were in the area of *market research*, the most requested problem area of every business type except construction. Construction requested market research the least of all the industry segments whereas all of the assistance given to wholesaling was in this problem area. Service, retail trade, and manufacturing requested market research relatively equally, but less than wholesale trade. Market surveys were definitely requested more often than assistance with sales promotion and advertising by the small businesses in this sample.

There are two reasons for the sample's preference for market research. Many small business owners/operators may feel particularly unsuited for market research either because they do not have the expertise for the task or because they do not have the time for the work. Also, student teams are particularly well suited for the gathering of unbiased data both because they are not actively involved in the business for which they are performing the research and because the public does not associate them with the business for which they are gathering the data.

Assistance with *business planning* problems were requested by every business type. Construction requested assistance in this area the most of any segment. Manufacturing needed management planning systems more than feasibility studies, but the service and the retail trade needed both equally. Most of the feasibility studies were studies of new product lines or new business ventures.

Inventory control and *distribution* problems were not examined for any of the construction or wholesale trade businesses in this sample. Assistance with inventory control was needed by service, retail trade, and manufacturing more than assistance with purchasing. Only manufacturing needed assistance with transportation.

Assistance with *personnel problems* was given to only the service and retail businesses. Most of the businesses in this sample had less than 15 employees and, no doubt, had less opportunity to develop major personnel problems.

D. Current Status of Client Companies

Table 4 indicates that 18 (20 percent) of the client businesses counseled since 1975 have gone out of business. This failure rate is slightly less than the average for Kansas.[3]

E. Feedback from Clients, 1982-1983

Table 5 summarizes feedback collected by the Kansas City District VII office of the Small Business Administration from KU SBI clients. The clients' strongly positive feedback reaffirms the value of this Small Business Administration-sponsored program.

II. Conclusion

The businesses in the sample participated in more than one type of business and were more often a corporation than a sole proprietorship

The clients' strongly positive feedback reaffirms the value of this Small Business Administration-sponsored program.

Table 4
Current Status of Client Companies

Status*	Number of Companies	%
Active	66	75
Inactive	18	20
Never Started	4	5
Total	88	

*Status verified by use of area telephone books.

Table 5
Feedback From Clients: 1982-1983

Type	Number of Clients	%
Positive	24	86
Negative	1	4
Not Contacted	3	10
Total	18	100

or partnership. The businesses requested assistance with market research problems most often, financial control problems next most frequently, and personnel problems the least often. Participants in the Small Business Institute Program indicated in feedback that they felt strongly positive about the program and found the results of the students' projects useful.

Footnotes

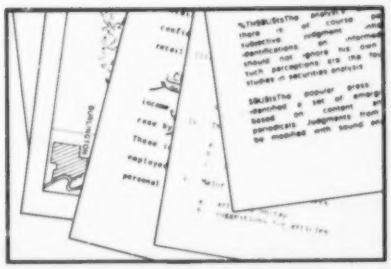
[1]The Kansas Small Business Development Centers are located at Emporia State University, Ft. Hays State University, Johnson County Community College, Kansas State University, Pittsburg State University, Wichita State University, and Washburn University of Topeka, as well as the University of Kansas. For management assistance, businesses should contact the closest school.

[2]*1983 State of Small Business, A Report to the President*, (Washington, D.C.: U.S. Government Printing Office, 1984) p. vii.

[3]Ibid., p. 9.

Research Note

The Wage Structure of the Kansas Economy



Introduction

The purpose of this note is to describe the wage structure of the Kansas economy. First, Kansas wage rates are compared with the wage rates of other states, and, second, various regional wage rates in Kansas are compared. To reiterate, this study is simply a descriptive reporting of the state's wage structure, and no attempt is made here to explain why the differences in wage rates exist.

Given the nature of the data used in this note, several limitations exist which qualify their implications. (1) The data are a by-product of the administration of the state Unemployment Insurance (UI) programs. As such, the data only include covered workers, who, however, represent 88.3 percent of the total civilian labor force and 93.9 percent of the wage and salary component of personal income. Nonetheless, not all workers are covered, and it should be noted that those workers who are covered have higher mean wages than those uncovered. (2) The difference between the wage rates of different states does not necessarily reflect the "real" wage difference between the states. In order to determine the "real" difference between the states, some form of cost-of-living indicator for each state would need to be used. For example, if it cost 10 percent more to live in New York than in Kansas, a more meaningful comparison would be to adjust the New York and Kansas wages to account for the 10 percent differential. (3) Due to the different procedures used by the federal and state services responsible for these data, the federal figures are incompatible with the Kansas regional figures. What exists, therefore, is a relative comparison of Kansas with other states and another relative comparison of different regions in Kansas. Further, any comparison of a Kansas region with another state can only be made on an ordinal basis.

I. Interstate Comparisons

In 1983, Kansas ranked 33rd in the nation in average annual pay and 27th in the nation in the growth rate of average annual pay from 1982 to 1983. Table 1 has the average annual pay for Kansas and its surrounding states along with the national average. The only state in the region which has lower average annual pay is Nebraska which is ranked 43rd in the nation. Of particular interest is the fact that Kansas average annual pay is significantly below the national average and that the annual growth rate for Kansas is also below the national average growth rate. The best paying state in the region is Colorado which ranked 10th in the country while the regional state with the largest growth rate in wages is Missouri which ranked 19th nationally.

From 1982 to 1983, average annual government pay increased faster than average annual pay in the private sector. Table 2 has the

Table 1
Average Annual Pay and Percentage Change: 1982-83
(All Covered Workers)

	Average Annual Pay		Percentage Change
	1982	1983	1982-83
United States	16,736	17,544	4.8
Colorado	17,392	18,102	4.1
Kansas	15,277	15,915	4.2
Missouri	15,970	16,785	5.1
Nebraska	14,057	14,762	5.0
Oklahoma	16,766	17,154	2.3

Table 2
Wage Comparisons for Kansas, Surrounding States, and U.S.

	Average Annual Pay		Percentage Change
	1982	1983	1982-83
UNITED STATES			
Private			
Total	16,644	17,416	4.6
Mining	27,626	28,808	4.3
Construction	20,381	20,492	0.5
Manufacturing	20,315	21,469	5.7
Transportation, Communications, and Public Utilities	22,832	24,041	5.3
Wholesale Trade	20,705	21,507	3.9
Retail Trade	9,572	10,007	4.5
Finance, Insurance, and Real Estate	17,889	19,575	9.4
Services	14,481	15,351	6.0
Government	17,176	18,154	5.7

average annual pay for Kansas and its surrounding states as well as the national average broken down by private and public sectors, with the private sector broken down by major industries. Nationally, the highest paying industry is transportation, communications, and public utilities while the industry with the fastest growth in wages is finance, insurance, and real estate. This same pattern holds for Kansas. One interesting phenomenon is that, in Kansas, private industry has higher average annual pay than government workers, whereas nationally the situation is reversed. However, from 1982 to 1983, government workers pay in Kansas increased at a rate above the national average at the same time as the rate of increase for private workers in Kansas increased less than the national average.

One other interesting fact is illustrated by Figures 1 and 2. (Figure 1 has the average annual private pay for 1983 for Kansas, its surrounding states, and the United States, and Figure 2 has the average annual pay for government workers in 1983 for the same areas.) It is obvious that, except for Nebraska, the average annual private pay for the remaining areas is much more closely bunched than the average annual pay for government workers.

II. Intrastate Comparisons

The in-state regional wage picture is basically a three-tiered structure as Figures 3 and 4 illustrate. Regions VI and VII, which contain the Kansas City SMSA and the Wichita SMSA (see Map 1), are the highest paying regions and are the only regions above the state average in both 1980 and 1982. Regions II, III, and VIII, containing all of southwestern Kansas, the Lawrence SMSA, and the major portion of the Topeka SMSA, are the second tier of the regional wage structure. The second-tier regions have average annual wage rates slightly below the state average. Finally, Regions I, IV, V, and IX represent the lowest tier of the wage structure. All of these regions have average annual wages well below the state average.

However, the regional wage picture shifts dramatically when the regions are compared on the basis of the growth rate in wages. Regions I and V, which are in the lowest tier of the wage structure, had the two highest growth rates, 36 and 38 percent increases, respectively. The two regions with the highest average annual wage—Region VI and VII—have the lowest growth rates, 21 and 24 percent increases, respectively. In general, there is an inverse relationship between the level of the average annual wage rate and the rate of growth of the wage rate. As a result, from 1980 to 1982 the gap between the high and low regions on the basis of average annual wage was narrowed, and the wage rates of all

COLORADO			
Private			
Total	17,306	17,919	3.5
Mining	32,192	33,256	3.3
Construction	21,270	21,244	−0.1
Transportation, Communications, and Public Utilities	23,805	25,388	6.6
Wholesale Trade	21,151	21,899	3.5
Retail Trade	10,045	10,507	4.6
Finance, Insurance, and Real Estate	17,703	19,350	9.3
Services	14,459	15,266	5.6
Government	17,795	18,953	6.5
KANSAS			
Private			
Total	15,401	15,969	3.7
Mining	21,934	22,132	0.9
Construction	19,290	19,208	−0.4
Manufacturing	19,749	20,627	4.4
Transportation, Communications, and Public Utilities	20,491	21,410	4.5
Wholesale Trade	18,754	19,574	4.4
Retail Trade	8,736	9,026	3.3
Finance, Insurance, and Real Estate	15,807	16,824	6.4
Services	12,856	13,510	5.1
Government	14,758	15,686	6.3
MISSOURI			
Private			
Total	16,008	16,793	4.9
Mining	24,913	25,868	3.8
Construction	20,963	21,315	1.7
Manufacturing	19,748	21,000	6.3
Transportation, Communications, and Public Utilities	22,917	24,464	6.7
Wholesale Trade	19,674	20,380	3.6
Retail Trade	9,179	9,611	4.7
Finance, Insurance, and Real Estate	16,152	17,481	8.2
Services	13,444	14,135	5.1
Government	15,773	16,745	6.2
NEBRASKA			
Private			
Total	13,992	14,617	4.5
Mining	17,714	17,818	0.6
Construction	17,395	16,871	−3.0
Manufacturing	18,029	18,808	4.3

Transportation, Communications, and Public Utilities	20,702	22,766	10.0
Wholesale Trade	17,453	18,040	3.4
Retail Trade	8,325	8,494	2.0
Finance, Insurance, and Real Estate	16,399	17,470	6.5
Services	11,664	12,213	4.7
Government	14,294	15,305	7.1
OKLAHOMA			
Private			
Total	17,071	17,347	1.6
Mining	27,082	28,053	3.6
Construction	18,189	17,874	–1.7
Manufacturing	19,775	21,013	6.3
Transportation, Communications, and Public Utilities	22,458	23,798	6.0
Wholesale Trade	20,416	20,530	0.6
Retail Trade	9,736	9,961	2.3
Finance, Insurance, and Real Estate	16,959	18,010	6.2
Services	13,809	14,476	4.8
Government	15,546	16,444	5.8

the regions were bunched more closely together in 1982 than in 1980.

A more detailed comparison of the regional wage structure can be found in Table 3. In this table, regional wages are given by major industrial sectors. Overall, Kansas average annual wage rose 25 percent from 1980 to 1982. Over this same period, the industrial sector with the largest increase in average annual wage was the transportation and utilities industry where the wage rose from $11,824 in 1980 to $19,910 in 1982, a 64 percent increase. Mining and construction were the industries with the next highest rates of increase, 36 and 32 percent, respectively. The industry where wages rose the least was manufacturing which had an increase of only 18 percent.

The overall wage structure picture for Kansas does not necessarily reflect the regional wage structures as three examples illustrate. First, Region I had a 1982 average annual wage about $2,275 less than the state average. Second, Region III had a 1982 average annual wage approximately $1,900 more than Region V, but Region V has a 1982 average annual wage for manufacturing more than $700 higher than Region III. Finally, in Region VII, the average annual wage for transportation and public utilities increased 35 percent from 1980 to 1982, nearly 30 percent less than the state increase in that sector.

It is also possible to compare wage structure at a more local level. A breakdown of wage structure by major industrial sector is available for each county in Kansas. (Due to the limitations of space only the major population centers will be reviewed.) Figure 5 shows the 1980 and 1982 average annual wage for Douglas (Lawrence), Shawnee (Topeka), Sedgwick (Wichita), and Johnson and Wyandotte (Kansas City) counties. The most noticeable anomaly in Figure 5 is that the average annual wage in Wyandotte County is higher than in Johnson County. This incongruity is due to the methodology used. These figures represent wages and salary by place of work, not by place of residence. Because a significant por-

Figure 1
Average Annual Private Pay for Kansas, Surrounding States, and U.S.: 1983

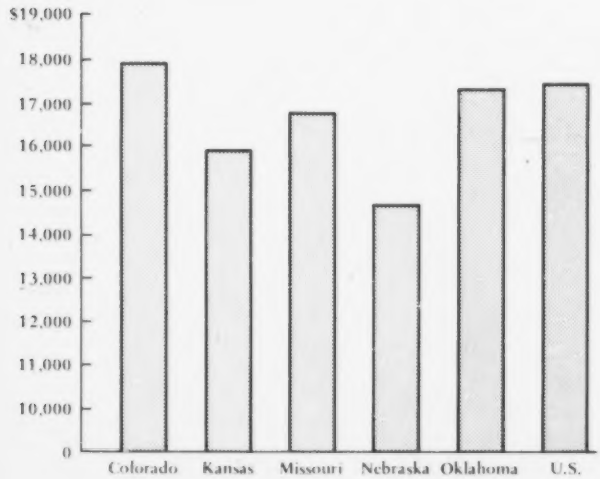


Figure 2
Average Annual Government Pay for Kansas, Surrounding States, and U.S.: 1983

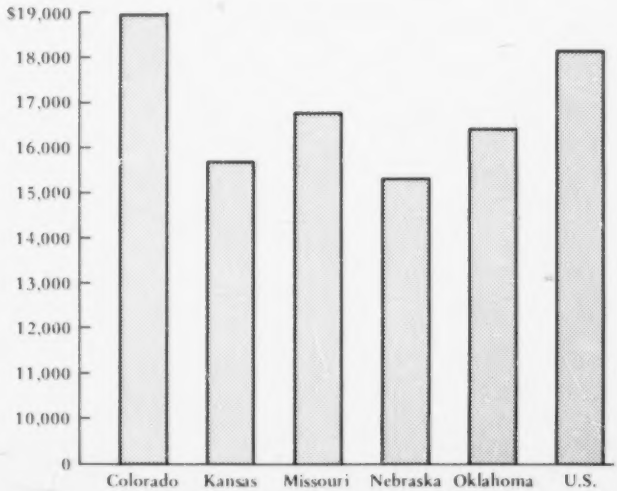


Figure 3
Regional Wage Comparison
(Average Annual Wage) Kansas: 1980

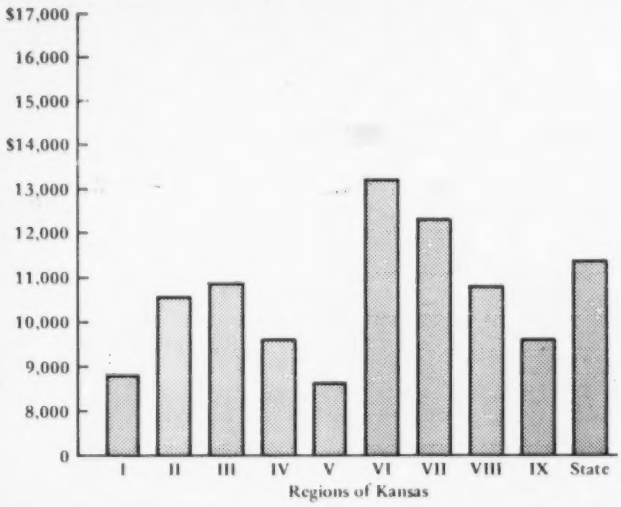


Figure 4
Regional Wage Comparison
(Average Annual Wage) Kansas: 1982

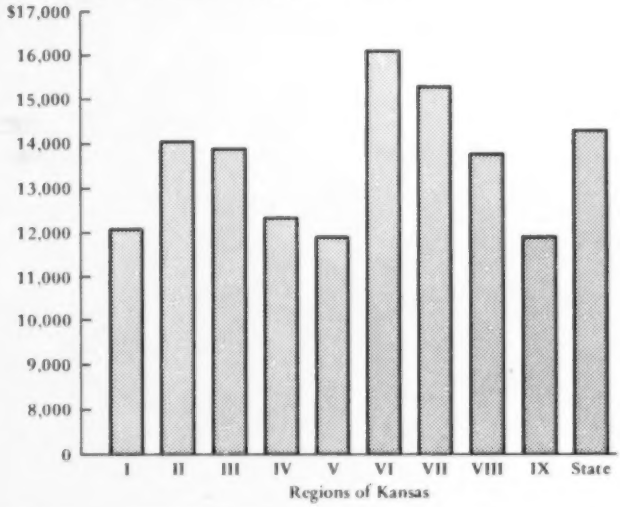
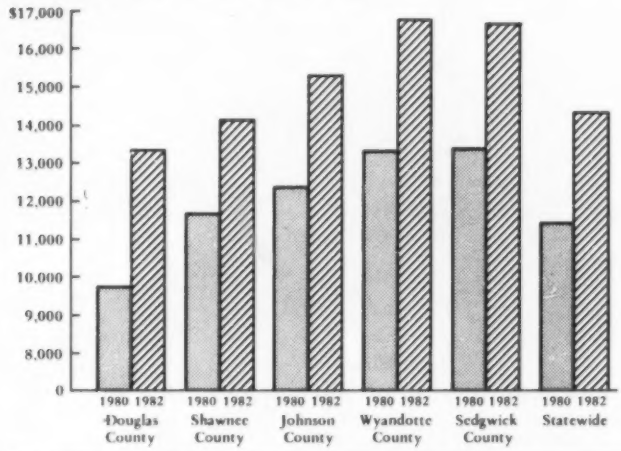


Table 3
Wage Comparisons for Kansas Regions: 1980, 1982

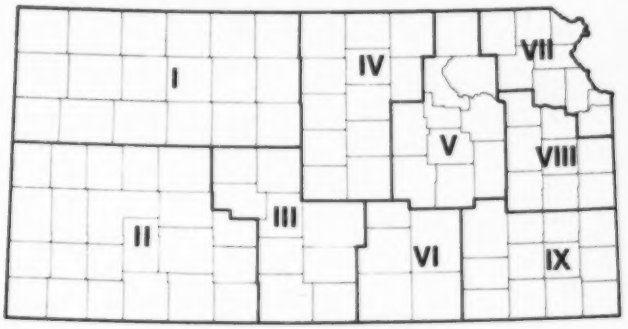
(1980)	Total	Manufacturing	Mining	Construction	Transportation-Utilities	Trade	Finance	Services
Statewide	11,426	15,682	15,823	13,390	11,824	9,003	12,299	10,012
Region I	8,861	11,505	15,178	8,568	11,608	7,165	12,804	8,273
II	10,519	13,847	15,464	11,191	13,665	8,968	12,321	9,933
III	10,973	14,059	16,389	11,078	11,126	8,553	12,639	9,606
IV	9,656	13,106	16,538	11,719	11,486	7,874	11,881	8,776
V	8,657	12,392	14,569	11,573	10,192	6,837	11,094	8,017
VI	13,255	18,216	16,784	12,712	11,075	9,425	13,130	10,878
VII	12,329	14,914	17,821	16,020	15,804	11,116	12,326	11,013
VIII	10,836	15,508	15,064	16,103	10,294	8,015	11,679	9,886
IX	9,636	12,015	14,118	11,378	7,758	7,022	11,232	9,056
(1982)								
Statewide	14,338	18,467	21,552	17,648	19,910	11,166	14,725	12,050
Region I	12,070	14,231	21,360	12,098	19,557	9,242	14,432	10,231
II	14,035	16,789	22,933	16,972	21,470	11,171	14,348	11,372
III	13,822	16,255	21,792	15,024	19,872	11,845	14,173	11,151
IV	12,387	16,761	19,042	15,234	18,600	9,905	13,849	10,102
V	11,924	16,974	16,458	15,457	17,319	8,389	12,965	11,189
VI	16,043	20,561	24,181	17,393	21,274	11,590	15,616	13,105
VII	15,331	19,331	20,802	20,356	21,266	12,947	15,491	13,048
VIII	13,755	17,062	20,570	19,947	21,011	10,284	14,052	12,265
IX	11,986	14,213	18,240	14,581	14,335	8,776	12,877	10,282

[1] In whole dollars.

Figure 5
Average Annual Wage for Major Kansas Population Centers: 1980, 1982



Map 1
Kansas Economic Regions



tion of the wages and salary earners in Wyandotte County resides in Johnson County, Figure 5 is not representative of the relative well-being of these areas. Of these major population centers, the two counties with the greatest increase in the annual average wage from 1980 to 1982 were Douglas (37 percent increase) and Wyandotte (25 percent increase). Table 4 provides a detailed breakdown of the wage structure for each of these counties by major industrial sector.

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Sources

"Average Annual Pay by State and Industry, 1983." *News*. Bureau of Labor Statistics, U.S. Department of Labor, August 24, 1984.

"Average Wage by Industry." Research and Analysis Section, Kansas Department of Human Resources. Report Series November 9, 1980, 1982.

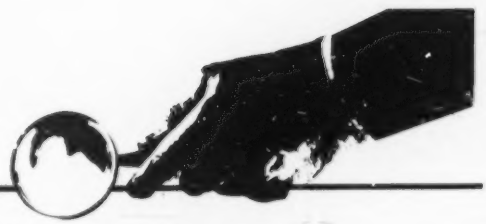
Table 4
Wage Comparisons for Major Kansas Population Centers: 1980, 1982

	Average Annual Pay 1980	1982
DOUGLAS COUNTY		
Total	9,790	13,380
Manufacturing	14,319	17,660
Mining	N/A	N/A
Construction	14,862	16,182
Transportation and Public Utilities	11,269	17,103
Wholesale and Retail Trade	6,256	8,682
Finance	9,904	11,722
Services	9,086	13,692
SHAWNEE COUNTY		
Total	11,685	14,120
Manufacturing	17,345	18,181
Mining	N/A	N/A
Construction	16,353	18,577
Transportation and Public Utilities	10,720	21,816
Wholesale and Retail Trade	9,152	11,320
Finance	12,201	14,652
Services	10,543	12,381
JOHNSON COUNTY		
Total	12,438	15,298
Manufacturing	15,015	17,857
Mining	N/A	N/A
Construction	16,183	20,222
Transportation and Public Utilities	14,146	21,557
Wholesale and Retail Trade	11,351	13,292
Finance	12,985	16,648
Services	11,539	13,979
WYANDOTTE COUNTY		
Total	13,397	16,746
Manufacturing	15,714	21,761
Mining	N/A	N/A
Construction	17,828	22,896
Transportation and Public Utilities	18,032	22,162
Wholesale and Retail Trade	12,424	13,775
Finance	11,290	13,077
Services	11,172	12,916
SEDGWICK COUNTY		
Total	13,835	16,626
Manufacturing	18,637	20,838
Mining	17,867	26,406
Construction	12,982	18,081
Transportation and Public Utilities	10,818	21,723
Wholesale and Retail Trade	9,897	12,182
Finance	13,289	15,891
Services	11,508	13,642

N/A–Not available.

Economic Conditions

The National Review



The State of the Economy

Third-quarter growth in GNP came in at 2.7 percent (*since revised to 1.9 percent—ed.'s note*), an anticipated drop in the rate of growth given the widespread assumption that the economy could not sustain the high growth rates in GNP of the year's first half. Nonetheless, this decline has occasioned a wide diversity of opinion as to where the economy is headed. Some economists, for example, believe the country is "nose diving" into a recession. Others believe that the third quarter figure represents a nadir and that higher, sustainable rates of growth are imminent. Although some data may appear ominous—data that some analysts are latching onto when forecasting a recession—we believe that these data are isolated occurrences and that the economy will grow at a healthy rate in the fourth quarter. Specifically, our short-term expectation is that the growth rate in GNP will prove to be a vigorous 4.0 to 4.5 percent in the fourth quarter, followed by somewhat lower rates in the first half of 1985.

Current Indications

The downside news stems mainly from a fall in retail sales, off 1.7 percent in July and 0.6 percent in August. Since the decline in retail sales was largely unanticipated and precipitated an involuntary increase in inventories, the inventory-to-sales ratio increased from 1.32 in June to 1.35 in August. This 1.35 figure is, however, still low by historical standards. As a result of firms trying to reduce inventories, industrial production declined by 0.6 percent in September, the first drop since November of 1982. New orders for manufactured goods fell 1.8 percent in September. In July and August, both housing starts and sales of new single family houses declined. These declines in the housing sector in July and August, however, were not the start of a trend. In September, the construction industry, the largest as well as a very volatile sector of the economy, came back on track with starts of single family homes up almost 9.0 percent and new home sales up over 20 percent, a very positive sign.

The reasons for the decline in retail sales in July and August are not totally clear Part of the decline was clearly due to weak auto sales, but they resulted from a lack in the supply of popular models, not a lack of demand. Indeed, sales of autos picked up substantially in September, peaking at an annual rate of nine million before settling down. Furthermore, auto makers are now working at near capacity attempting to build inventories up from well-below-normal levels. Whatever the reason for the decline of retail sales in July and August, retail sales increased by a strong 1.6 percent in September, and, as measured at the University of Michigan, consumer condifence is high, indicating that retail sales will continue to grow.

Clear-cut indications of a healthy economy are the increases in personal income and a strong rise in nondefense capital goods orders. Personal income rose by 0.9 percent in September following an increase of 0.6 percent in August. These increases in personal income were mainly the result of more people employed and of longer work weeks increasing the wage and salary component of personal income. This enhanced ability to consume, coupled with the strong confidence mentioned above, bodes well for the economy in the coming months, as does a 4.0 percent September increase in orders for nondefense capital goods. This rise, as a reflection of business' outlook and the capacity to produce, is a very positive sign.

Suggestive but less emphatic signs for a favorable short-term outlook relate to the fact that the Federal Reserve Bank has been holding down the growth in the money supply. The supply of MI was near the low end of the targeted growth rate of 4.0 to 8.0 percent. The fact that the growth has been on the low side and that the Administration has been urging the Fed to loosen its grip indicates a probability that more money is on the way. If the Fed does loosen its credit grip, it will benefit business investment through at least temporarily lower interest rates.

Although auto production is straining capacity, the economy in general does have the capacity to sustain further increases, another indication of fourth-quarter and early '85 growth. The operating rate of factories was at 81.9 percent capacity in September, below both its peak of 88.4 percent in 1973 and its average of the past several years. Unit labor costs have been fairly stable, indicating that with an unemployment rate of around 7.5 percent there is still some slack in the labor market.

Other current indications appear more ambiguous as predictors for the short run. For example, if the increase in demand in the third quarter had been met by domestic production—that is, had the trade deficit remained the same in the third quarter as it had been in the second quarter—then GNP would have grown by 5.5 percent in the third quarter. Two reasons for the trade gap are the strong dollar and the U.S. economy growing faster than the economies of most of its trading partners. And, yet, the fact that the nation's rate of growth is slowing relative to that of our trading partners will, in itself, decrease the trade deficits; however, fluctuations in the price of the dollar are notoriously difficult to predict, and their influence remains to be seen.

The slight decline in the unemployment rate in September to 7.4 percent from 7.5 percent in July and August is also a less than clear-cut indicator of the immediate future. The unemployment rate is generally considered to be a lagging indicator; that is, its movements follow with some delay the movements in general economic activity. The aforementioned 2.7 percent growth rate of GNP in the third quarter is actually very near the growth in potential GNP—the growth that occurs as a result of increased population and productivity. Thus, this level of growth in itself is not enough to reduce the unemployment rate. Yet, the length of the average work week did increase by 0.1 hours in September, a positive sign in that, generally, firms increase the average hours before making changes in employment. If the economy does pick up in the fourth quarter as we expect, the unemployment rate will decline to approximately 7.0 percent in early 1985.

Summarizing from this review of current indicators, we expect GNP to increase at a rate of 4.0 to 4.5 percent in the fourth quarter and to remain strong in the first half of 1985. This growth is possible because of continued strong demand coupled with excess capacity in the economy and will cause the unemployment rate to decline. Interest rates may soften temporarily as it appears the Fed may loosen the credit reins.

Longer Term Issues

Interest Rates and the Deficit

In the first Presidential debate, President Reagan stated that there is no correlation between the interest rate and the deficit. Admittedly, it is difficult to demonstrate a correlation because a deficit can be financed in different ways (the debt can be monetized or bonds can be sold) and because interest rates can be measured in different ways and are influenced by many factors other than the deficit. However, no one who accepts the law of supply and demand can doubt, other things equal, that as the supply of bonds increases the price of the bonds will fall, thereby increasing the interest rate. The actions of the Administration demonstrate that they do, in fact, accept the law of supply and demand in the bond market.

Most notably in this context, the Treasury has taken steps to increase the demand for bonds, thereby raising their price and thus lowering the interest rate. In July, one such action to increase the demand for U.S. bonds took effect with the withdrawal of the 30 percent withholding tax on interest paid to foreigners who hold a U.S. debt. Another action was the sale of "partially registered" bonds which are sold specifically to foreigners. These bonds are such that they can only be sold to foreigners but are anonymous to the extent that the specific owner is unknown. Both of these actions are designed to increase the funds available to the U.S.; that is, these actions increase the demand for bonds, thereby increasing their price and deflating the interest rate. This use of foreign capital to expand the credit pool is having an effect on the nation's interest rates. The softness in the interest rates beginning in August and lasting through late October (the time of this writing) is, we believe, in large part a result of this surge in foreign capital entering the U.S.

The efforts by the Treasury to attract foreign capital are intended, at least in part, to avoid the "crowding-out" effect. In other words, new sources of funds were made available so that the Treasury's huge credit requirements would not be in even greater conflict with business borrowing. Given the current deficit, however, if new ways of increasing the demand for bonds are not continuously initiated, interest rates will rise too high for the amount of business borrowing necessary to sustain growth in the economy. For example, new schemes soon will become necessary as the governments of Britain, Germany, and France also are moving to repeal the withholding tax on interest paid to foreign holders of their bonds.

Employment and Prices

Both employment and prices are being affected by the budget deficit. Because the deficit leads to high real interest rates, U.S. bonds attract foreign investors, and, when foreigners buy U.S. bonds, they must have dollars. The U.S. Treasury and U.S. businesses do not, for the most part, spend pounds or deutsche marks; they spend dollars. This fact, in turn, means that there is a worldwide demand for dollars, translating into a high price for dollars relative to other currencies. Subsequently, this strong dollar makes foreign goods relatively inexpensive in the U.S. and leads to a large gap between the amount of goods imported and the amount of goods exported.

In terms of overall price levels, the influx of imports has been good news: the imports have held prices down. Specifically, the percent increase in the CPI has been moderate at annual rates of 3.5 percent, 5.5 percent, and 4.3 percent in July, August, and September, respectively.

Because goods are imported and services are generally not imported, there has been a lopsided effect on the price of goods and the price of services, leading in recent months to a sharp split between the CPIs for services and for goods. As one would expect, the service component has been rising much faster than the goods component. Roughly, the services component has grown at around a 7.0 percent annual rate whereas the goods component has increased at a 1.0 percent annual rate in the months of July, August, and September.

Elementary economics demonstrate that a change in relative prices between goods and services sends signals throughout the economy to reallocate resources, and this shifting can be seen in the labor market. According to the *Payroll Survey*, there were 139,000 more jobs in September than in August. However, the *Survey* also showed a decline in employment among manufacturers by 90,000 in the month of September. Although the differences between service employment and manufacturing employment had not been quite as dramatic in the prior months as it was in September, the above figures do illustrate the effect the strong dollar is having on our economy.

Conclusion

Clearly, the budget deficit is affecting our economy in many different ways. Although some temporary relief in interest rates may come as the Fed eases credit, the long-term outlook is not optimistic. As noted, the Treasury's huge credit demands have been offset recently by expanding the pool of creditors, yet, if the Treasury exhausts its ability to expand the pool before the deficit is reduced, interest rates will rise. The rate of unemployment is expected to decline also in late 1984, but concern exists over the evolving patterns of employment. In particular, the strong dollar is keeping down the price of goods relative to services and is leading to a reallocation of employment away from manufacturing, a trend which some economic observers do not believe is in the long-term best interest of the U.S.

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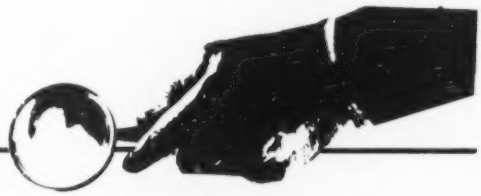
The Kansas Economy



A Shift-Share Analysis

In September 1979, the nonfarm wage and salary employment in Kansas was 957.8 thousand, whereas in September of this year the level of employment was 942.7 thousand. Using a technique called "shift-share analysis," this report will try to explain, at least in part, why the Kansas economy has fared so poorly in the past five years. Initially, a brief explanation of the shift-share technique will be given together with some of the criticisms leveled at it. Following, the results of the analysis will be presented, and some provisional conclusions will be considered.

Shift-share analysis was apparently first used in the 1940s and is still a popular technique for regional planners. Harry Richardson summarized the technique by saying:

What shift-share does is to measure the total

change in the region's performance relative to the nation's over a given time period. . . . This relative change (sometimes called the *total shift*) is divided into two components. The *proportional shift* attempts to measure the influence of industry mix on the region. The *differential shift* is a measure of the degree to which regional industries grow faster or slower than their national counterparts.[1]

An example should help clarify the procedure used in this report. In the stone, clay, and glass products industry (a subdivision of the manufacturing sector) in June 1979, Kansas had 8.9 thousand employed while nationally 715 thousand were employed. By June 1984, Kansas employment had fallen to 7.4 thousand whereas national employment had fallen to 606 thousand. The first step is to determine what employment in June 1984 would have been in the Kansas stone, clay, and glass products industry had it grown at the same rate as the industry grew nationally:

$$\text{No. employed in Kansas stone, clay, and glass June 1979} \times \frac{\text{No. employed in U.S. stone, clay, and glass June 1984}}{\text{No. employed in U.S. stone, clay, and glass, June 1979}} = \text{Projected Kansas employment in stone, clay, and glass June 1984}$$

Plugging in the number, shows

$$8.9 \times \frac{606}{715} = 7.5;$$

thus, Kansas projected employment in the stone, clay, and glass products industry in June 1984 is 7.5 thousand. The next step is to subtract the projected June 1984 employment from the actual June 1984 employment (7.4 thousand) in the industry. The difference is −0.1 thousand; therefore, −0.1 becomes the differential shift factor for this one industry.

This same procedure is then followed for each industry, and all of the differential shift factors are added together to give the total differential shift. The subsequent step is to find the total shift factor by following the same procedure as outlined for the stone, clay, and glass industry except that total employment figures for Kansas and the nation are substituted. Projected June 1984 total employment in Kansas is then subtracted from actual total employment in Kansas to give the total shift. The proportional shift is found, therefore, by subtracting the total differential shift from the total shift. The differential shift indicates how Kansas industries are growing relative to their national counterparts. The proportional shift purports to measure the influence of the industrial mix on Kansas growth; i.e., if the proportional shift is negative, then Kansas grew slowly because the industrial mix in Kansas contained slower growing industries than the national average.

It has been known for some time that problems exist with the shift-share methodology.[2] Some of the more damaging methodological criticisms are: (1) Since the technique is based solely on an identity, it has no behavioral content; as such, the methodology simply is a way of ordering data and has no explanatory value. (2) A bias exists which is dependent upon the amount of disaggregation; that is, the more disaggregation in the model, the larger the proportional shift. (3) The proportional shift purports to measure the effect of industry mix on growth; however, the industry mix changes over the period of study, and, thus, the proportional shift says something about the past industry mix but nothing about the current industry mix.

The third criticism is of particular importance for planners and policymakers. Shift-share says nothing about the present or future, and, as such, it should not be used as a policy guide. Richardson summarized the problem by stating: "I used the derisory description 'a harmless past time for small boys with pocket calculators,' but in fact it can be far from harmless if used for policy (mis) guidance."

For this study, shift-share analysis was performed on Kansas employment data for two different periods: 1971 to 1979, and June 1979 to June 1984. Table 1 contains the derivation of the differential shifts for both periods. Note, however, that more than simply the differentials are present because an understanding of Kansas' current economic stagnation comes from a study of the disaggregated data as well as from the shift-share analysis itself. For example, the strong performance of the Kansas aircraft industry from 1971 to 1979 could not be sustained beyond 1979 because of the national decline in the industry.

The results of the shift-share analysis follow the standard intuition of the current problems with the Kansas economy. From 1971 to 1979, the total shift in employment was an increase of 97.1 thousand jobs. The differential shift was a positive 91.4 thousand jobs; the proportional shift a positive 5.7 thousand jobs. In other words, the Kansas economy outperformed the national by a substantial margin, and not because of any lucky mix of industries. Basically, the whole state economy out-performed the whole national economy. From June 1979 to June 1984, the total shift in employment was a decline of 63 thousand jobs. The differential shift was a negative 55.2 thousand jobs, and the proportional shift was a negative 7.8 thousand jobs. The Kansas economy for the past five years has not performed as well as the national economy, with the industrial mix playing a larger role in the later period. Again, one should be careful in interpreting the proportional shift. If it does reflect the industry mix, then the industry mix it reflects is from June 1979, and it is now a little late to be concerned with the industrial mix of five years ago.

However, this analysis of the state's long-term sluggish economic performance does suggest that a quick turnaround in conditions is not at all likely. Indeed, the immediate future for Kansas does not look particularly good. The gradual increase in employment over the past year and half looks to slow as the national economy prepares for a recession (for an alternative point of view, see "The National Review" in this issue). Although farm income in Kansas has increased dramatically in the past three quarters, most of this growth is related to government transfers, and, with prices as low as they are, the future looks like a continuation of the past few years.

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The Institute for Economic and Business Research

Sources

[1] Richardson, H.W., "The State of Regional Economics: A Survey Article." *International Regional Service Review* (1978) 33:1-48.

[2] Houston, D.B., "The Shift and Share Analysis of Regional Growth: A Critique." *Southern Economic Journal* (1967) 33:557-81.

Table 1
Derivation of Differential Shift Factors For Employment

	1971 Avg. (1,000)	1979 Avg. Actual (1,000)	1979 Projected (1,000)	Differential	June 1979 (1,000)	June 1984 Actual (1,000)	June 1984 Projected (1,000)	Differential
Stone, Clay, and Glass Products	7.1	8.6	7.8	+0.8	8.9	7.4	7.5	−0.1
Primary Metals	3.0	4.2	3.2	+1.0	4.3	2.6	3.0	−0.4
Fabricated Metals	9.1	14.2	10.6	+3.6	14.2	11.6	12.1	−0.5
Machinery	18.1	37.3	23.2	+14.1	37.8	28.0	36.6	−8.6
Aircraft	17.2	43.7	20.0	+23.7	43.4	37.3	42.2	−4.9
Other Transportation Equipment	10.8	9.8	12.6	−2.8	10.8	11.1	10.0	+1.1
Other Durable Goods	8.3	12.5	9.8	+2.7	12.8	10.1	12.4	−2.3
Food and Kindred Products	19.9	22.9	19.3	+3.6	23.0	24.2	22.0	+2.2
Apparel	4.4	3.7	4.3	−0.6	3.7	3.6	3.4	+0.2
Printing and Publication	12.7	16.7	14.6	+2.1	17.0	18.1	18.6	−0.5
Chemical Products	7.5	8.9	8.3	+0.6	8.9	8.0	8.5	−0.5
Petroleum and Coal Products	3.6	4.6	4.0	+0.6	4.7	4.3	4.2	+0.1
Other Non-Durable Goods	8.1	11.8	8.4	+3.4	11.7	11.9	10.9	+1.0
Mining	10.0	13.7	15.7	−2.0	13.9	17.7	14.7	+3.0
Construction	21.2	49.9	39.1	+10.8	55.1	43.2	51.4	−8.2
Transportation and Public Utilities	51.2	65.3	58.9	+6.4	66.9	64.5	66.4	−1.9
Wholesale Trade	34.8	63.5	45.0	+18.5	63.3	66.3	67.2	−0.9
Retail Trade	127.3	162.2	167.8	−5.6	164.3	162.0	178.6	−16.6
Finance	30.9	46.3	40.7	+5.6	47.1	50.2	53.9	−3.7
Services	104.5	163.7	151.0	+12.7	164.6	176.3	199.3	−23.0
Federal Employment	26.1	26.0	26.9	−0.9	26.5	27.8	26.3	+1.5
State and Local Government	130.2	157.3	164.2	−6.9	155.9	166.8	159.0	+7.8
Total	676.0	946.8	849.7	+91.4	959.3	943.9	1006.9	−55.2

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Economic Indicators

TABLE ONE: ECONOMIC INDICATORS

Comparison Indicators		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly,at annual rates, SA						
Kansas - Mil. $	2nd	33102	32751	29126	1.07	13.65
United States - Bil. $	3rd	1361.6	1374.3	1286.4	-0.92	5.85
B. Employment - Quarterly, NSA						
Kansas - Thou.	3rd	1151.2	1139.5	1170.7	1.02	-1.67
United States - Mil.	3rd	105.2	105.1	103.3	0.06	1.84
C. Unemployment Rate - Quarterly, NSA						
Kansas - %	3rd	4.8	5.1	5.5		
United States - %	3rd	7.5	7.5	9.4		
D. Retail Sales - Monthly, at annual rates, NSA						
Kansas - Mil. $	SEP	1203.3	1443.3	NA	-16.63	NA
United States - Bil. $	JUL	107.8	108.1	98.8	-0.28	9.11
E. Consumer Price Index, CPI-U, All items - Monthly, SA						
Kansas City* - 1967 = 100	AUG	311.2	309.1	301.3	0.68	3.29
United States - 1967 = 100	OCT	NA	NA	NA	NA	NA
Kansas Indicators						
F. Construction Activity - Quarterly, NSA						
Value of Building Permits** - Tho. $	3rd	NA	NA	NA	NA	NA
G. New Incorporations - Quarterly, NSA						
For Profit - Number	3rd	426.3	484.3	357.7	-11.98	19.20
H. Crude Oil Production - Quarterly						
Thousand BBLS	3rd	NA	NA	NA	NA	NA
I. Tax Revenue, Quarterly, NSA						
General Fund Tax Revenue - Mil. $	3rd	118.6	151.5	109.7	-21.71	8.11
J. Operating Expenditures, Quarterly, NSA						
General Fund Operating Expenditures - Mil. $	3rd	118.7	135.6	76.5	-12.42	55.21

NOTES: *The Kansas City CPI-U is published bimonthly starting with February.
**Includes only the activity in the state's twelve largest cities (by population).
National employment and unemployment rate figures are based on the Current Population Survey (household survey).
State figures are based on the Current Employment Statistics Survey (establishment survey).
NSA-Not Seasonally Adjusted.
SA-Seasonally Adjusted.

SOURCE: BEA, BLS, Ks. Dept. of Human Resources, Ks. Secretary of State, Ks. Dept. of Administration, Ks. Dept. of Revenue.

TABLE TWO: NATIONAL INDICATORS
(Seasonally Adjusted)

General Indicators		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Income Measures - Quarterly, at annual rates						
Gross National Product - Bil. 72$	3rd	1649.6	1638.8	1550.2	0.66	6.41
Disposable Personal Income - Bil. 72$	3rd	1175.4	1165.3	1102.2	0.87	6.64
Personal Consumption - Bil. 72$	3rd	1064.6	1064.2	1015.6	0.04	4.82
Gross Private Investment - Bil. 72$	3rd	299.2	283.9	230.6	5.39	29.75
Net Export of Goods and Services - Bil. 72$	3rd	-22.7	-11.4	-11.9	99.12	90.76
Government Purchases - Bil. 72$	3rd	308.4	302.1	115.6	2.09	166.78
Personal Savings - Bil. 72$	3rd	164.7	144.8	116.8	13.74	41.01
Savings Rate - %	3rd	6.3	5.7	4.9	10.53	28.57
B. Labor Force - Monthly						
Civilian Labor Force - Mil.	SEP	113.7	113.5	112.4	0.18	1.16
Employed - Mil.	SEP	105.2	105.0	101.9	0.19	3.24
Unemployed - Mil.	SEP	8.5	8.5	10.4	0.00	-18.27
Unemployment Rates - percent						
All -	SEP	7.4	7.5	9.3	-1.33	-20.43
Women -	SEP	6.7	7.1	7.8	-5.63	-14.10
Men -	SEP	6.5	6.4	8.7	1.56	-25.29
Teens -	SEP	19.3	18.4	21.8	4.89	-11.47
Blacks -	SEP	15.1	16.0	19.0	-5.63	-20.53
Whites -	SEP	6.4	6.4	8.7	0.00	-26.44
C. General Business - Quarterly						
Industrial Production - 1967 = 100	2nd	163.0	158.7	151.8	2.71	7.38
Mfg. and Trade Sales - Bil. 72$	2nd	178.5	174.6	165.7	2.25	7.74
Mfg. and Trade Inventories - Bil. 72$	2nd	269.4	262.8	256.3	2.50	5.10
New Orders, Durable Goods - Bil. 72$	2nd	100.1	102.3	89.4	-2.12	12.01
Capacity Utilization, Mfg. %	2nd	81.8	80.7	73.8	1.36	10.84
New Housing Starts, Private - Tho.	2nd	1895.3	1968.0	1690.3	-3.69	12.13

D. Prices - Monthly						
Consumer Prices - 1967 = 1009						
CPI-W, All Items		NA	NA		NA	NA
CPI-U, All Items		NA	NA		NA	NA
Food	SEP	303.8	304.1	300.5	-0.10	1.10
Housing	SEP	340.2	338.7	326.2	0.44	4.29
Apparel	SEP	202.1	200.8	194.5	0.65	3.91
Transportation	SEP	312.7	311.2	290.6	0.48	7.60
Medical	SEP	383.4	382.2	361.7	0.31	6.00
Producer Prices - 1967 = 100						
All Commodities	SEP	328.4	329.9	305.3	-0.45	7.57
Industrial Commodities	SEP	322.3	323.5	317.1	-0.37	1.64
Crude Materials	SEP	326.7	329.3	328.4	-0.79	-0.52
Capital Equipment	SEP	292.9	295.1	285.2	-0.75	2.70
Agricultural Prices - 1977 = 100						
Prices Received	SEP	139.0	143.0	136.0	-2.80	2.21
Prices Paid	SEP	165.0	165.0	162.0	0.00	1.85
Parity Ratio - Number	SEP	84.0	87.0	84.0		
E. Monetary and Credit Aggregates - Quarterly						
(Annual rates of change, seasonally adjusted in percent.)						
Total Reserves -	2nd	7.8	6.9	11.8	13.04	-33.90
M1	2nd	6.1	7.2	11.6	-15.28	-47.41
Commercial Banks:						
Savings -	2nd	-6.4	-16.2	-14.8	-60.49	-56.76
Small Denomination Time -	2nd	8.6	4.4	-21.2	95.45	-140.57
Large Denomination Time -	2nd	24.2	10.0	-14.6	142.00	-265.75
Thrift Institutions:						
Savings -	2nd	0.5	-5.1	-1.3	-109.80	-138.46
Large Denomination Time -	2nd	46.4	59.0	51.2	-21.36	-9.38
Debt Components:						
Federal -	2nd	14.0	14.7	23.2	-4.76	-39.66
Nonfederal -	2nd	13.4	11.8	7.3	13.56	83.56
Interest Rates - Monthly						
Prime Rate - %	AUG	13.00	13.00	10.89	0.00	19.38
Discount Rate - %	AUG	9.00	9.00	9.41	0.00	-4.36

SOURCES: BEA, BLS, Survey of Current Business, Federal Reserve Bulletin.

TABLE THREE: EMPLOYMENT IN KANSAS

Category		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. General Indicators - Quarterly						
Civilian Labor Force - Tho.	3rd	1209.8	1200.4	1202.2	0.79	0.64
Employed - Tho.	3rd	1151.2	1139.5	1141.2	1.02	0.87
Farm Employment - Tho.	3rd	68.8	64.3	72.4	6.95	-5.02
Unemployed Tho.	3rd	58.7	61.0	73.7	-3.77	-20.40
Initial Claims for Unemployment Insurance - Tho.	3rd	11.5	9.9	15.0	16.18	-23.25
Average Work Week, Mfg. - Hrs.	3rd	39.8	40.1	39.3	-0.67	1.49
B. Industry Employment - Quarterly, in thousands						
All Industries -	3rd	933.3	942.3	916.9	-0.96	1.79
Manufacturing -	3rd	178.1	176.3	162.7	1.02	9.47
Durable Goods -	3rd	107.7	107.0	97.9	0.65	10.07
Fabricated Metal Production -	3rd	11.9	11.4	11.4	3.79	4.09
Machinery (incl. Elec.) -	3rd	27.9	28.0	24.9	-0.59	11.91
Transport. Equip. -	3rd	47.9	47.8	41.8	0.21	14.81
Aircraft and Parts -	3rd	36.9	36.8	31.8	0.18	16.04
Nondurable Goods -	3rd	70.4	69.3	64.9	1.59	8.56
Food and Kindred Prod. -	3rd	24.3	24.0	22.9	1.39	6.49
Meat Products -	3rd	11.2	10.8	9.9	3.69	14.04
Printing and Publishing -	3rd	18.0	18.0	16.1	0.00	11.94
Petroleum and Coal -	3rd	4.3	4.2	4.5	1.57	-3.37
Mining -	3rd	17.8	17.3	17.6	2.89	1.14
Oil and Gas Extraction -	3rd	16.0	15.6	15.8	2.56	1.80
Contract Construction -	3rd	43.6	40.9	37.2	6.43	17.27
Trans. and Public Utilities -	3rd	63.7	63.9	61.0	-0.31	4.48
Wholesale Trade -	3rd	66.3	65.6	66.4	1.12	-0.10
Retail Trade -	3rd	161.6	161.6	159.9	0.02	1.09
Finance, Ins., and Real Estate -	3rd	61.1	61.1	48.6	0.11	25.79
Services	3rd	175.5	175.8	173.2	-0.17	1.33
Federal Government -	3rd	26.9	27.5	25.8	-2.06	4.26
State and Local Government -	3rd	150.9	163.7	147.1	-7.78	2.61

SOURCES: BLS, Ks. Dept. of Human Resources.

TABLE FOUR: INCOME IN KANSAS
(Seasonally Adjusted, at Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly						
Total - Mil. $	2nd	33102	32751	29126	1.07	13.65
Nonfarm Income - Mil. $	2nd	31437	30310	28950	3.72	8.59
Farm Income - Mil. $	2nd	1666	2441	536	-31.75	210.82
Average Weekly Earnings, Mfg.* - $	3rd	375	382	361	-1.81	4.07
B. Earnings by Industry - Quarterly, in Millions						
Nonfarm -	2nd	20834	20023	18779	4.05	10.94
Farm -	2nd	1666	2441	741	-31.75	124.83
Manufacturing -	2nd	4655	4483	3980	3.84	16.96
Durable Goods -	2nd	2969	2850	2445	4.18	21.43
Nondurable Goods -	2nd	1686	1633	1535	3.25	9.84
Mining -	2nd	576	740	502	-22.16	14.74
Contract Construction -	2nd	1188	1201	1076	-1.08	10.41
Trans. and Public Utilities -	2nd	2034	1995	1846	1.95	10.18
Wholesale Trade -	2nd	1597	1609	1469	-0.75	8.71
Retail Trade -	2nd	1993	1920	1843	3.80	8.14
Finance, Ins., and Real Estate -	2nd	1200	1149	1060	4.44	13.21
Services -	2nd	3857	3437	3451	12.22	11.76
Federal Government -	2nd	666	644	611	3.42	9.00
State and Local Government -	2nd	2470	2388	2340	7.95	5.56

NOTE: *Not seasonally adjusted.

SOURCES: BEA, Ks. Dept. of Human Resources.

TABLE FIVE: KANSAS RETAIL SALES SUBJECT TO SALES TAX
(At Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Business Classification - Quarterly, in Millions						
Apparel -	3rd	33.1	41.9	33.7	-21.04	-1.86
Automotive -	3rd	271.7	261.2	257.4	3.99	5.56
Food -	3rd	315.8	317.3	305.6	-0.48	3.34
Furniture -	3rd	64.2	68.6	54.0	-6.53	18.90
General Merchandise -	3rd	168.0	188.5	176.8	-10.89	-5.01
Lumber and Building Materials -	3rd	117.7	101.0	108.7	16.51	8.34
Prof. and Pers. Service -	3rd	69.5	62.8	63.3	10.65	9.76
Public Utilities -	3rd	62.7	71.4	69.5	-12.30	-9.82
Unclassified -	3rd	111.9	115.2	108.5	-2.86	3.21
Farm and Garden Products -	3rd	1.3	1.7	1.2	-24.37	12.18
Manufacturing and Trading -	3rd	94.5	90.1	88.1	4.98	7.32
Miscellaneous -	3rd	4.2	4.9	8.7	-14.80	-51.45
Total -	3rd	1314.6	1318.2	1275.3	-0.27	3.08

NOTE: Retail sales figures are based on sales tax collections. Actual and reported retail sales may vary.

SOURCES: Ks. Dept. of Revenue.

TABLE SIX: EMPLOYMENT AND SALES FOR SMSAs AND COUNTIES

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Wichita SMSA - Quarterly						
Civilian Labor Force - Tho.	3rd	231.9	259.5	220.0	-10.65	5.41
Employed - Tho.	3rd	218.0	214.4	205.8	1.66	5.93
Farm - Tho.	3rd	2.9	2.6	2.9	9.62	-1.72
Unemployed - Tho.	3rd	13.2	12.0	14.2	10.00	-6.71
Rate - %	3rd	5.7	5.3	6.5	7.55	-11.63
Retail Sales - Mil. $	3rd	284.6	264.5	262.0	7.60	8.62
B. Kansas Portion of Kansas City SMSA - Quarterly						
Civilian Labor Force - Tho.	3rd	231.2	270.8	288.1	-14.62	-19.75
Employed - Tho.	3rd	220.3	260.8	276.1	-15.56	-20.21
Farm - Tho.	3rd	NA	1.3	1.6	NA	NA
Unemployed - Tho.	3rd	11.0	10.0	12.1	9.87	-9.13
Rate - %	3rd	4.8	3.7	4.2	27.23	14.46
Retail Sales - Mil. $	3rd	252.9	238.8	235.6	5.90	7.34
C. Topeka SMSA - Quarterly						
Civilian Labor Force - Tho.	3rd	97.4	95.5	93.7	1.95	4.00
Employed - Tho.	3rd	92.1	90.6	88.6	1.66	3.95
Farm - Tho.	3rd	2.1	1.9	2.1	7.89	-2.38
Unemployed - Tho.	3rd	5.3	4.9	5.1	7.43	4.95
Rate - %	3rd	5.0	5.1	5.4	-2.60	-6.54
Retail Sales - Mil. $	3rd	99.8	94.1	88.9	6.08	12.32
D. Lawrence SMSA - Quarterly						
Civilian Labor Force - Tho.	3rd	32.8	33.7	31.9	-2.72	2.66
Employed - Tho.	3rd	31.4	32.2	30.1	-2.74	4.33
Farm - Tho.	3rd	0.9	0.8	0.9	12.50	0.00
Unemployed - Tho.	3rd	1.4	1.4	1.5	-2.33	-6.67
Rate - %	3rd	4.3	4.3	4.7	0.78	-8.51
Retail Sales - Mil. $	3rd	28.9	29.0	28.1	-0.40	2.78
E. Riley County--Manhattan Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	22.0	20.8	NA	NA
Employed - Tho.	3rd	NA	21.4	20.1	NA	NA
Farm - Tho.	3rd	NA	1.1	1.3	NA	NA
Unemployed - Tho.	3rd	NA	0.7	7.3	NA	NA
Rate - %	3rd	NA	3.0	3.5	NA	NA
Retail Sales - Mil. $	3rd	17.5	17.5	18.0	0.09	-2.48

F. Reno County--Hutchinson Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	29.8	29.8	NA	NA
Employed - Tho.	3rd	NA	28.3	27.9	NA	NA
Farm - Tho.	3rd	NA	1.4	1.6	NA	NA
Unemployed - Tho.	3rd	NA	1.6	1.9	NA	NA
Rate - %	3rd	NA	5.1	6.2	NA	NA
Retail Sales - Mil. $	3rd	34.4	33.3	32.3	3.40	6.65
G. Crawford County--Pittsburg Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	16.5	16.2	NA	NA
Employed - Tho.	3rd	NA	15.5	15.2	NA	NA
Farm - Tho.	3rd	NA	0.9	1.0	NA	NA
Unemployed - Tho.	3rd	NA	1.1	1.1	NA	NA
Rate - %	3rd	NA	6.3	6.2	NA	NA
Retail Sales - Mil. $	3rd	13.9	14.2	13.6	-2.21	1.99
H. Lyon County--Emporia Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	17.7	17.2	NA	NA
Employed - Tho.	3rd	NA	17.0	16.4	NA	NA
Farm - Tho.	3rd	NA	0.8	1.0	NA	NA
Unemployed - Tho.	3rd	NA	0.7	7.7	NA	NA
Rate - %	3rd	NA	3.9	4.5	NA	NA
Retail Sales - Mil. $	3rd	17.4	18.0	17.8	-3.61	-2.41
I. Saline County--Salina Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	26.0	25.5	NA	NA
Employed - Tho.	3rd	NA	24.6	24.2	NA	NA
Farm - Tho.	3rd	NA	0.7	1.4	NA	NA
Unemployed - Tho.	3rd	NA	1.4	13.6	NA	NA
Rate - %	3rd	NA	5.4	5.4	NA	NA
Retail Sales - Mil. $	3rd	34.3	31.0	31.1	10.39	10.06
J. Barton County--Great Bend Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	18.7	19.3	NA	NA
Employed - Tho.	3rd	NA	18.0	18.6	NA	NA
Farm - Tho.	3rd	NA	0.9	1.1	NA	NA
Unemployed - Tho.	3rd	NA	0.7	7.4	NA	NA
Rate - %	3rd	NA	3.8	3.9	NA	NA
Retail Sales - Mil. $	3rd	32.3	26.8	26.1	20.32	23.62
K. Montgomery County--Coffeyville Area - Quarterly						
Civilian Labor Force - Tho.	3rd	NA	19.1	19.5	NA	NA
Employed - Tho.	3rd	NA	17.9	17.7	NA	NA
Farm - Tho.	3rd	NA	0.6	1.0	NA	NA
Unemployed - Tho.	3rd	NA	1.2	1.9	NA	NA
Rate - %	3rd	NA	6.1	9.6	NA	NA
Retail Sales - Mil. $	3rd	18.0	17.0	17.1	5.61	5.34

SOURCE: Ks. Dept. of Human Resources, Ks. Dept. of Revenue.

TABLE SEVEN: KANSAS AGRICULTURAL INDICATORS

Item		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Prices Received - Monthly						
All Farm Products - 1977 = 100	SEP	159	161	155	-1.24	2.58
All Crops - Do.	SEP	151	154	162	-1.95	-6.79
Wheat - $/Bu.	SEP	3.45	3.38	3.43	2.07	0.58
Sorghum Grain - $/Cwt.	SEP	4.17	4.60	5.32	-9.35	-21.62
Corn - $/Bu.	SEP	3.04	3.23	3.44	-5.88	-11.63
Soybeans - Do.	SEP	5.93	6.38	7.83	-7.05	-24.27
All Hay - $/Ton	SEP	76.00	70.00	62.00	8.57	22.58
Livestock and Products - 1977 = 100	SEP	164	166	151	-1.20	8.61
All Beef Cattle - $/Cwt.	SEP	61.00	61.20	55.40	-0.33	10.11
Steers and Heifers - Do.	SEP	62.20	62.80	56.60	-0.96	9.89
Calves - Do.	SEP	59.10	59.30	57.30	-0.34	3.14
Hogs - Do.	SEP	45.50	49.00	45.60	-7.14	-0.22
Milk - Do.	SEP	13.80	13.30	13.50	3.76	2.22
B. Prices Paid - Monthly						
Prices Paid - 1977 = 100	AUG	N.A.	N.A.	N.A.	NA	NA
Parity Ratio - Number	AUG	N.A.	N.A.	N.A.	NA	NA

SOURCE: Ks. Crop and Livestock Reporting Service.

NOTE: *Not seasonally adjusted.

SOURCES: BEA, Ks. Dept. of Human Resources.

TABLE EIGHT: BANKING ACTIVITY IN KANSAS

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Federal Reserve Member Banks						
Kansas - Quarterly, in Millions						
Total Deposits -	3rd	25633.5	24831.3	22993.0	3.23	11.48
Total Checkable -	3rd	5071.5	4996.0	4927.3	1.51	2.93
Demand Deposits -	3rd	3091.0	3032.3	3076.0	1.93	0.49
Other Checkable -	3rd	1980.5	1963.7	1819.7	0.86	8.84
Small Time and Savings -	3rd	17014.5	16596.7	15458.3	2.52	10.07
Large Time -	3rd	3547.5	3238.7	2603.3	9.54	36.27
Kansas City, KS - Quarterly, in Millions						
Total Loans -	3rd	346.2	329.2	233.6	5.15	48.18
Real Estate -	3rd	79.0	77.8	37.0	1.48	113.38
Commercial and Industrial -	3rd	115.1	113.2	66.8	1.65	72.39
Consumer -	3rd	45.4	44.7	40.1	1.45	13.00
Total Deposits -	3rd	436.2	416.1	360.7	4.82	20.94
Demand Deposits -	3rd	97.5	99.2	100.8	-1.73	-3.32
Time and Savings -	3rd	175.6	170.1	145.6	3.21	20.60
Topeka - Quarterly, in Millions						
Total Loans -	3rd	367.4	355.5	317.8	3.35	15.61
Real Estate -	3rd	88.8	73.0	53.6	21.52	65.48
Commercial and Industrial -	3rd	181.8	186.3	169.7	-2.42	7.13
Consumer -	3rd	76.2	63.0	51.3	20.81	48.44
Total Deposits -	3rd	490.4	481.8	474.5	1.77	3.34
Demand Deposits -	3rd	144.2	147.8	148.6	-2.47	-3.02
Time and Savings -	3rd	204.6	208.2	207.4	-1.74	-1.39

Wichita - Quarterly, in Millions						
Total Loans -	3rd	1089.3	1043.3	902.7	4.41	20.67
Real Estate -	3rd	173.8	158.9	136.6	9.32	27.20
Commercial and Industrial -	3rd	487.7	482.5	412.7	1.06	18.16
Consumer -	3rd	279.2	265.2	234.0	5.29	19.30
Total Deposits -	3rd	1575.6	1503.9	1392.0	4.76	13.18
Demand Deposits -	3rd	441.1	435.7	458.5	1.25	-3.80
Time and Savings -	3rd	622.0	632.4	623.3	-1.65	-0.20
B. All Commercial Banks						
Kansas - Quarterly, in Millions						
Total Loans -	3rd	10647.8	10153.8	9422.5	4.87	13.00
Total Deposits -	3rd	18035.3	17111.1	15497.9	5.40	16.37
Demand Deposits -	3rd	3496.1	3227.2	3320.7	8.33	5.28
Time and Savings -	3rd	14539.2	13884.0	12177.1	4.72	19.40
Kansas City, KS - Quarterly, in Millions						
Total Loans -	3rd	1839.5	1737.8	1534.9	5.85	19.84
Real Estate -	3rd	682.7	635.5	525.7	7.43	29.86
Commercial and Industrial -	3rd	584.8	538.9	437.6	8.52	33.64
Consumer -	3rd	231.0	224.0	383.3	3.13	-39.73
Total Deposits -	3rd	2848.5	2618.3	2324.2	8.79	22.56
Demand Deposits -	3rd	543.0	486.3	469.6	11.66	15.63
Time and Savings -	3rd	2305.5	2132.1	1854.6	8.13	24.31
Topeka - Quarterly, in Millions						
Total Loans -	3rd	689.0	677.2	615.3	1.74	11.98
Real Estate -	3rd	168.0	160.2	138.1	4.87	21.65
Commercial and Industrial -	3rd	293.9	291.2	242.5	0.93	21.20
Consumer -	3rd	100.3	97.8	125.8	2.56	-20.27
Total Deposits -	3rd	1098.9	1077.4	996.6	2.00	10.26
Demand Deposits -	3rd	276.8	257.2	259.9	7.62	6.50
Time and Savings -	3rd	822.1	820.2	736.6	0.23	11.61
Wichita - Quarterly, in Millions						
Total Loans -	3rd	1815.4	1688.8	1524.3	7.50	19.10
Real Estate -	3rd	407.1	387.7	334.4	5.00	21.74
Commercial and Industrial -	3rd	801.6	739.9	654.4	8.34	22.49
Consumer -	3rd	335.4	312.3	361.3	7.40	-7.17
Total Deposits -	3rd	2978.9	2837.8	2470.8	4.97	20.56
Demand Deposits -	3rd	813.8	797.4	769.0	2.06	5.83
Time and Savings -	3rd	2165.1	2040.5	1701.8	6.11	27.22

SOURCE: Federal Reserve Bank of Kansas City.

TABLE NINE: SAVINGS AND LOAN ACTIVITY IN KANSAS

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Kansas - Quarterly, in Millions						
Total Loans -	3rd	11841.4	10567.0	9318.2	12.06	27.08
Net Gain in Savings -	3rd	7.3	39.8	51.4		
B. Kansas City, KS - Quarterly, in Millions						
Total Loans -	3rd	1531.3	1356.9	1450.9	12.85	5.54
Net Gain in Savings -	3rd	-4.8	0.1	-4.4		
C. Topeka - Quarterly, in Millions						
Total Loans -	3rd	2410.3	9370.4	2217.5	-74.28	8.69
Net Gain in Savings -	3rd	-7.1	-7.5	3.3		
D. Wichita - Quarterly, in Millions						
Total Loans -	3rd	2047.0	1729.3	1534.8	18.37	33.37
Net Gain in Savings -	3rd	-1.7	8.0	14.1		

SOURCE: Federal Home Loan Bank of Topeka.

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GROWTH OF RETAIL SALES
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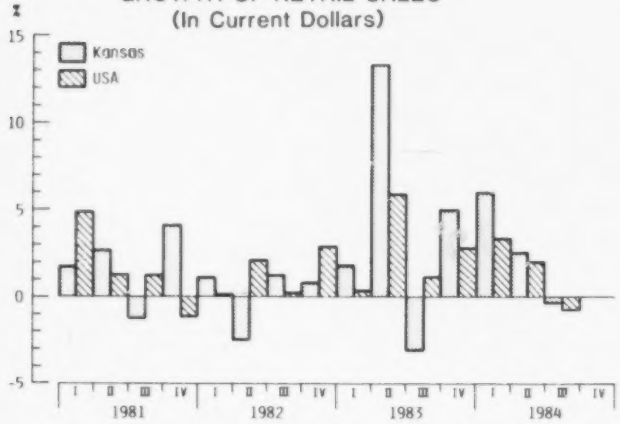

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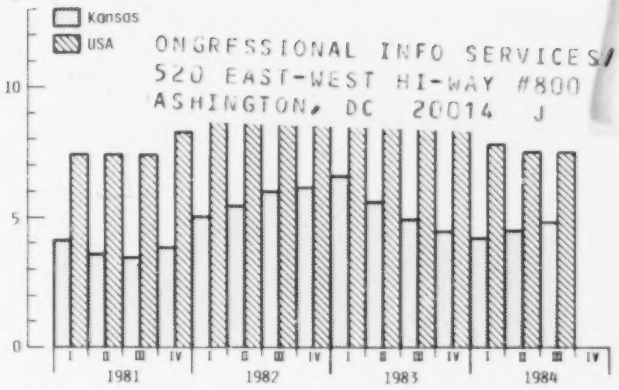

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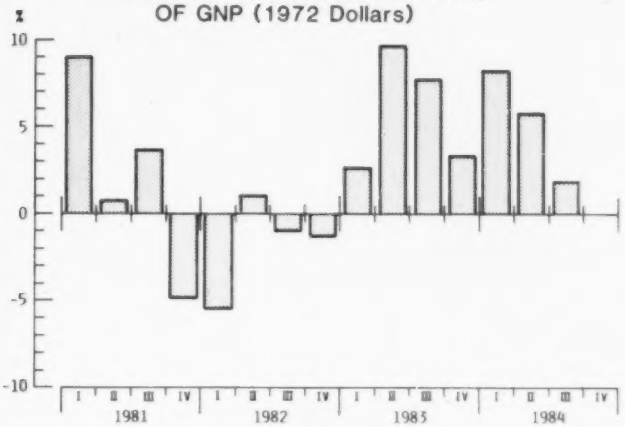
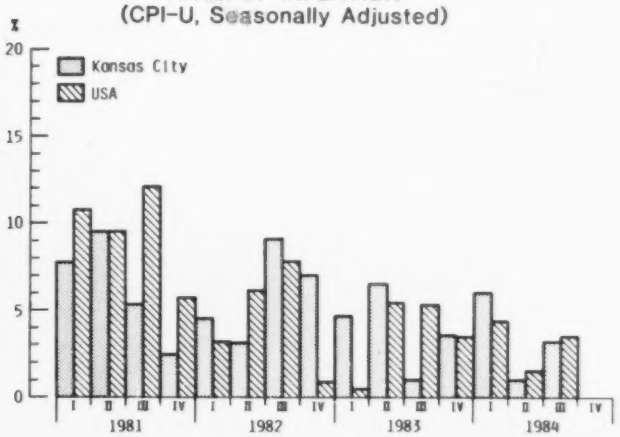
OF GNP (1972 Dollars)



RATE OF INFLATION
(CPI-U, Seasonally Adjusted)



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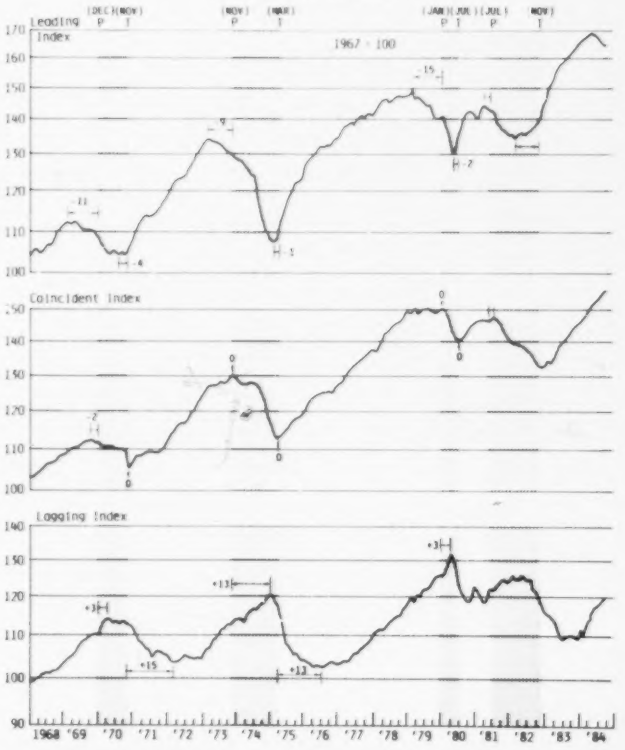

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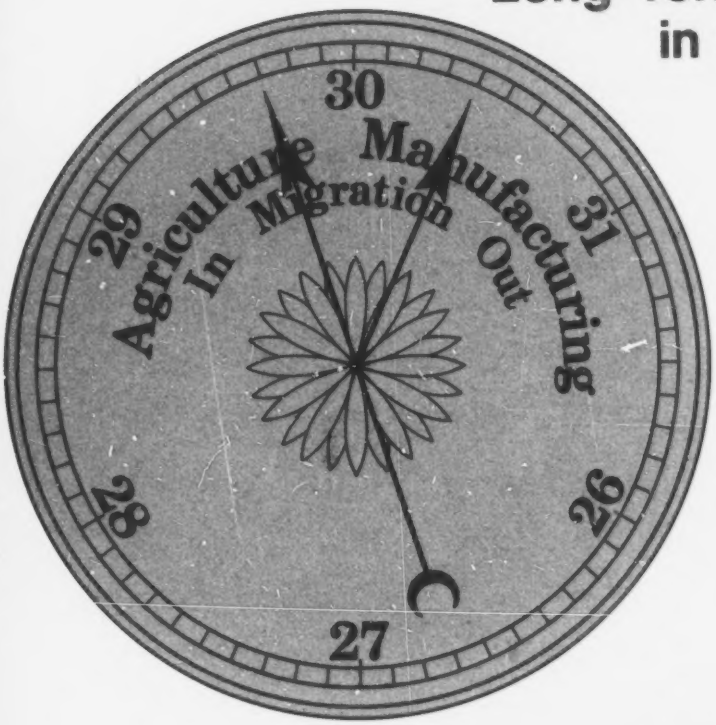

The Economic Outlook for the Year Ahead: The Deficit and the Budget

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The Editorial Review Board welcomes original manuscripts, studies, and research notes from academicians and other persons in any area of economics, business, and business administration. All submissions will be reviewed initially by the editorial staff and, when judged appropriate, will be sent to referees who are knowledgeable about the content.

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Submit manuscripts to: Editor, Kansas Business Review, The Institute for Economic and Business Research, 319 Raymond Nichols Hall, The University of Kansas, Lawrence, Kansas 66045.

Long-Term Structural Changes in the Kansas Economy

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Daniel L. Petree
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Introduction

The purpose of this article is to identify certain significant long-term changes in the state's economic structure— changes that have brought in their wake a profound, albeit gradual, transformation in the state's demographic character, particularly as expressed in the composition and behavior of the Kansas labor force. A further purpose of this study is to argue the contention that these long-run trends are responsible, in large part, for the current relative weakness of the Kansas economy *and* that their continuation does not augur well for the state's economy in the years to come. In this sense, publication of the study's findings is intended to bring these changes and their effects to the attention of Kansans as well as to suggest that the present marks the time for new policies and efforts that acknowledge the changed and changing nature of the Kansas economy.[1] The alternative strongly implied by the data discussed in this study is that, failing a renewed response by state planners and decision makers, Kansas runs the very real risk of being held hostage to a past that portends, at best, a difficult economic future.

The note of urgency sounded in this statement of purpose may seem an alien chord to many citizens of the state, especially to those who have taken comfort from—and found a source of pride in—the traditional view of Kansas enjoying a calm, strong economy within, while the country without fell prey to the convulsive swings of the national business cycle. Whereas at one time such a view was born out by Kansas' economic behavior, recent research generally supports the proposition put forward in an article published in this journal two years ago: "Kansas' historical tendency to be recession proof may have been, in many cases, the result of a fortuitous combination of events rather than the effect of an inherently stable economy," and since the early '70s the state's pattern of economic behavior has been notably less than stable[2]

Moreover, little comfort (or pride) can be taken from the fact, that during and following the 1980-82 recessions, the Kansas economy fell farther, started to recover later, and has grown more slowly than the national economy. Among a host of indicators suggesting that Kansas is now quite susceptible to the national business cycle and that its ability to rebound vigorously from periodic downswings of the national economy has been compromised, perhaps the most telling piece of evidence is that the state employment level has only now returned to its 1979 level.

Of course, the present weakness of the Kansas economy is due partially to some factors independent of the state's economic structure. Some observers, therefore, might choose to think that factors specific to the current situation (such as the depressing effect of the strength of the dollar in foreign markets and the global decline of oil prices on, respectively, the state's agricultural and manufacturing sectors and mining industry) argue that Kansas' failure to participate fully in the recovery period from the latest downturn is an unusual development rather than one implying a trend.

As important as these factors are to the present instance, however, this study contends that long-term changes in the very nature of the state's economy have had a debilitating effect on its economic vitality—specifically, an erosion of the economic and human resource base that sapped the state's ability to come out of the last recessions with any substantive strength. Furthermore, this interpretation of the causes for Kansas' current economic malaise forecasts, if redresss is wanting, the likely pattern of declining strength during the remainder of the decade and that ahead as well. That is to say, the possible danger awaiting the state in the not-too-distant future is that when the national economy turns down again—as it inevitably must given its cyclical character – the Kansas economy will experience once more an above-average impact and, then, will rebound more weakly than ever before. In this respect, it can also be said that the study's thesis is that the long term has caught up with the short term: Kansas is simply no longer well positioned to ride out with equanimity the fluctuations of the national business cycle.

Speaking summarily, the picture painted is of a state whose base of economic resources has eroded slowly over the years, creating, if one likes, a fine network of hairline fractures in the economic infrastructure—a tissue of potential fault lines that could become sharp cracks in the state's economic foundation.

The paper is organized as follows. Section I describes the long-term changes in the state's economic structure, particularly the evolution in the constituent elements of gross state product, civilian income, and total employment. Section II reviews the effects of those structural changes in the demographic profile of the state with particular attention paid to a migrating and, proportionately, a declining and aging population. In turn, the next section discusses the impact of the economic and demographic changes on recent employment trends in the state. The fourth section seeks to show that the current performance of the Kansas economy expresses, to a significant

Kansas runs the very real risk of being held hostage to a past that portends, at best, a difficult economic future.

. . . during and following the 1980-82 recessions, the Kansas economy fell farther, started to recover later, and has grown more slowly than the national economy.

extent, the legacy of the past, especially as the correlation between employment growth and the state's industrial character is delineated by a method known as shift-share analysis. In Section V, a brief summary implying some policy considerations is presented.

Essentially, this organization provides an interpretive framework for the history of the Kansas economy evolving from its early agricultural orientation toward a mixed economy that is tending to resemble the economic structure of the United States as a whole. In other words, the story of the state's economy in the 20th century primarily concerns the long transition out of farming to other forms of economic activity, with its demographics reflecting the degree of success or otherwise of the state's generating alternative employment opportunities for its citizens. As suggested above, the chapter currently being written in this ongoing chronicle concerns the Kansas economy becoming— as its character comes to reflect more closely that of the nation—more sensitive and vulnerable to the vagaries of the national business cycle.

I. Long-Term Changes in the Economic Structure

Changes in the structure of gross state product, civilian income, and total employment by sector (illustrated, respectively, in Tables 1, 2 and 3) clearly demonstrate the decline in the importance of the farm sector and a concurrent rise in the importance of manufacturing in Kansas. In this respect, Kansas' economic pattern is converging to approximate that of the U.S., particularly as it shows manufacturing's rise to accommodate the slack created by farming's decline. Nevertheless, it should be noted that combined farm and manufacturing employment in Kansas (21.69 percent of the state total) remains significantly below that for the nation as a whole (26.78 percent) and that employment in farming is projected to fall farther in the coming years.[3] Services and trade have been growing in Kansas as well, but, as their percentages approach the national average, it is likely that this growth is approaching a saturation stage.

The problem that this pattern of change poses for the state, therefore, is to continue to develop sources of economic growth to offset the farm sector's decline and the imminent leveling of the upsurge in trade and services.

In addition to that challenge, yet another is posed by the very significant changes which have occurred in Kansas' agricultural economy. Over time, the state's farms have become fewer, larger, and more capital intensive. Figure 1 outlines the decline in farm numbers since World War II: as shown, the number of farms has declined in all acreage categories except the very largest, 500-999 acres and 1,000 or more acres.

Figure 2 employs the sales-size classification to measure the percentage of total agricultural sales from each class. It shows that less than 1.0 percent of the state's farms (those with $500,000 or more in sales) accounted for almost half of the state's agricultural output for 1978 (the most recent year for which such comprehensive data is presently available). Finally, farm input use over time exhibits an increasing capital intensity and the dramatic rise in chemical use. Equally important is the decline in labor employed on the farm. Interestingly, land input remains remarkably constant—tending to contradict

Table 1
Kansas and U.S. Gross National Product by Industry (Percentage)

	1960	1970	1980
KANSAS			
Farming	13.05	9.99	8.63
Manufacturing	19.08	19.48	20.20
Service	8.01	9.99	10.86
Government	13.07	14.74	11.33
Trade	15.33	17.38	17.11
Construction	4.95	4.38	5.06

SOURCE: Kansas Department of Economic Development

UNITED STATES			
Farming	4.01	2.64	2.91
Manufacturing	28.57	25.59	22.10
Government	9.35	11.73	11.80

SOURCE: Survey of Current Business, 1981

Table 2
Percentage of Civilian Income by Industry

	1960		1970		1980	
	US	KS	US	KS	US	KS
Farm	3.45	13.90	2.24	8.30	1.45	5.40
Manufacturing	22.63	18.90	19.68	13.70	16.37	15.30
Service	7.39	11.00	8.84	9.40	10.12	10.37
Government	11.67	12.20	13.70	14.20	11.68	10.87
Trade	11.49	20.00	11.18	12.20	10.51	11.99
Construction	3.97	NA	4.13	NA	3.50	4.48
Other	39.40	24.00	40.23	42.20	46.57	41.59
Total	100.00	100.00	100.00	100.00	100.00	100.00

SOURCE: Bureau of Economic Analysis

Table 3
Percentage of Total Employment Contributed by Sector

	1969		1978		Projected 1990	
	KS	US	KS	US	KS	US
Agriculture	9.77%	3.24%	7.00%	2.93%	4.91%	2.29%
Mining	1.28	1.00	1.18	1.56	.96	1.77
Construction	5.04	6.37	5.78	6.06	5.72	6.11
Manufacturing	15.89	28.73	16.55	26.22	17.09	25.63
Transportation, Communication, and Public Utilities	5.79	7.05	5.88	7.64	5.79	7.79
Wholesale Trade	3.80	5.99	5.56	6.55	5.57	6.43
Retail Trade	16.21	10.77	16.06	9.99	16.26	9.73
Finance, Insurance, and Real Estate	3.64	5.37	4.47	5.78	5.08	6.27
Services	16.27	15.09	18.25	16.83	20.59	19.13
Government	22.31	16.46	19.33	16.45	18.04	14.87

SOURCE: Bureau of Economic Analysis

the myth that land is leaving agriculture. Quite clearly, it is labor that is leaving.

These changes are of considerable significance to Kansas. In one respect, as farms become larger and more capital intensive, agriculture tends to become vulnerable to fluctuations in financial markets and easily damaged by adverse price movements. Another impact is the clear and present threat to the vitality of the state's most rural counties: as resources leave farming, no alternative employment opportunities present themselves in farm-dominated communities. The result is a migration of resources from the affected area and a weakening of its economic structure.

II. Long-Term Changes in the Demographic Structure

There is, of course, a close link between economic and demographic characteristics and trends within Kansas. The preceding discussion of farm structure suggested that present structural trends in farming may cause population declines in rural counties, and, in fact, a close correlation exists between population declines between 1970-80 and those counties which are predominantly farm oriented. Noteworthy is that the pattern is less apt to hold for those agricultural counties near urban centers (for example, around Wichita) than for those more distant from metropolitan areas. The reason is that the urban centers provide off-farm employment for those who quit farming or farm only on a part-time basis.

Map 1 details population density in Kansas and reveals the concentration of population in the state's eastern region. The bulk of economic activity is located in this region and, in particular, in the northeast as well as in a corridor in central Kansas along I-35 and along the Kansas turnpike.

In essence, population movement and distribution are patterned toward economic opportunity which, in Kansas, is presently concentrated in the east and south central portions of the state. As a result, the proportion of urban population of Kansas has increased from 22.4 percent in 1900 to 66.7 percent in 1980. Furthermore, the Census-identified 68 "rural agriculture" counties contained only 28 percent of the population in 1980, while the remaining 37 counties had 72 percent.

A. Migration

Necessarily, the Kansas economy and population are affected by both interstate and intrastate migration as the work force moves to seek its greatest opportunity, be that in terms of enhanced earnings or job choice. Furthermore, the primary influence can be either a "pull" (higher wages and more interesting jobs elsewhere) or a "push" phenomenon (lack of opportunity in the current situation), and often both elements are present, as would seem to be the case with Kansas.

Census figures show that Kansas experienced net outmigration of 130,473 (6.1 percent of the base population) during 1960-70 and 31,617 (1.4 percent of base) during 1970-80. An analysis of migration among

Figure 1
Number of Kansas Farms by Acres Harvested (1945-82)

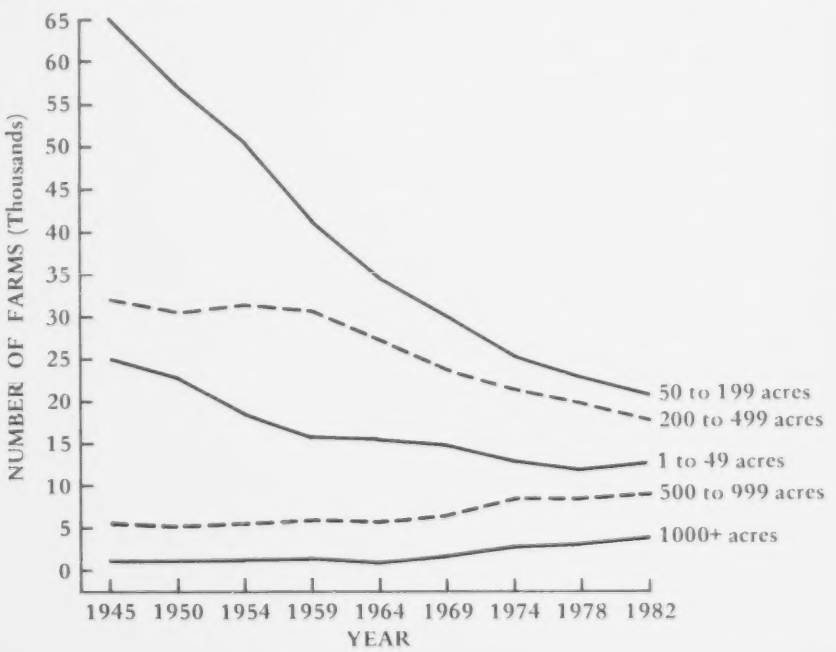
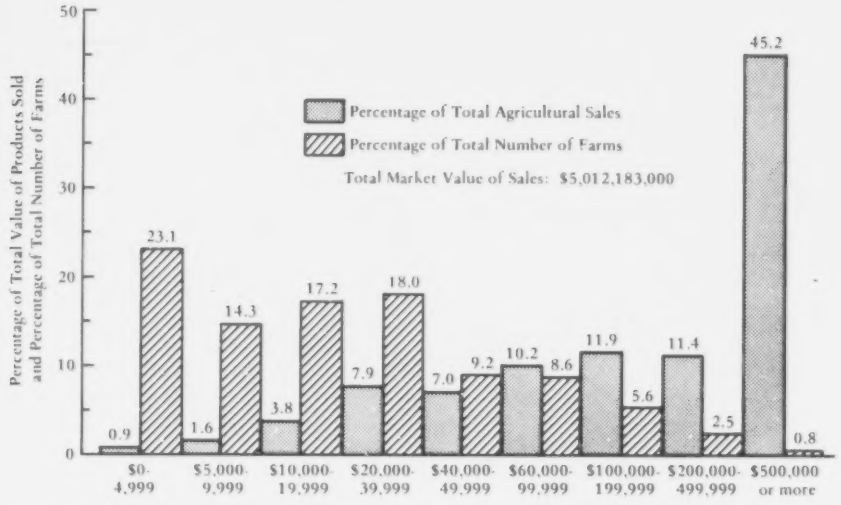


Figure 2
Percentage of Total Agricultural Sales in Kansas by Farms Classified by Sales (1978)



workers for the period 1965-75 shows how extensive the movement of Kansas workers was: 12-13 percent of the covered (Social Security) work force comprising in-migrants, 13-15.5 percent migrating out of state, and a further 12-13 percent moving intrastate.[4] While a large amount of migration was among neighboring states, in-migrants tended to come from surrounding Plains states and states to the east, whereas out-migrants mostly went to the southwest and west. Most important of all, this analysis confirms that interstate migration consists largely of higher paid/higher skilled workers and, moreover, that out-migrants will experience a substantially greater improvement in earnings than those who remain in the state, further evidence of the state's "brain-drain" problem, especially so as the largest group of these out-migrants are young educated adults.

Another study of worker mobility for the period 1971-73 demonstrates that there were significant variations in the sex, race, and skill patterns of migrants to and from the state's major urban areas (the Wichita, Kansas City, and Topeka SMSAs).[5] In general, each SMSA "turned over" 10-15 percent of its work force (the proportion moving out and replaced) over the two-year period; migrants were more often male than female; the 25-34 and 19-24 age groups constituted over half of all migrants in all three SMSAs; and, while whites were the largest group, black and "other" migrants represented greater percentages of their work forces. Significantly, this analysis revealed substantial movement of lower paid workers as well as the higher paid, indicating the existence also of strong "push" influences; that is, migration motivated by the lack of opportunity at the home base.

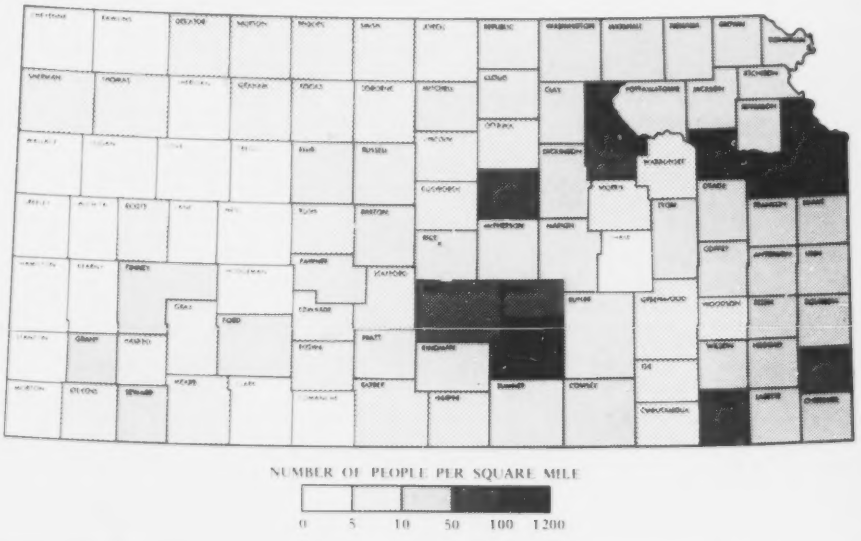
Net migration for each Kansas county is shown in Maps 2 and 3 for the periods 1960-70 and 1970-80. The vast majority of counties in the western portion of the state experienced net outmigration—in many instances, over 10 percent of their population for the decade and for some counties over 20 percent— while inmigration predominated for counties in the eastern sector.

In summary, then, all these migration data detail an evolving disequilibrium in terms of population density and economic activity within the state—in itself perhaps neither a negative or positive development, yet one that both represents a change and demands attention, particularly in the context of farming's decline and the need for a stable, skilled human resources base to "stock" those industries which must take up the slack in the economic activity.

B. Age Structure

Another aspect of demographic imbalance concerns the relative age of the Kansas population. Although the Kansas age pattern closely approximates that of the U.S., in that

Map 1
Population Density of Kansas Counties (1980)



The story of the state's economy in the 20th century primarily concerns the long transition out of farming to other forms of economic activity, with its demographics reflecting the degree of success or otherwise of the state's generating alternative employment opportunities for its citizens.

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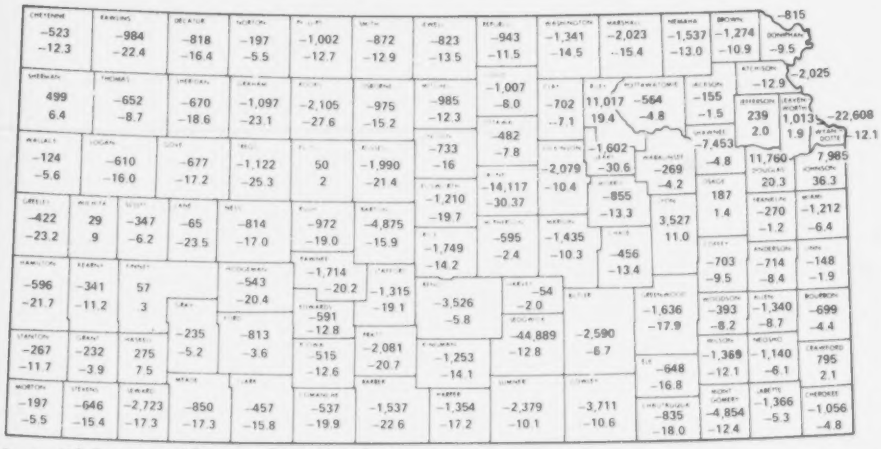
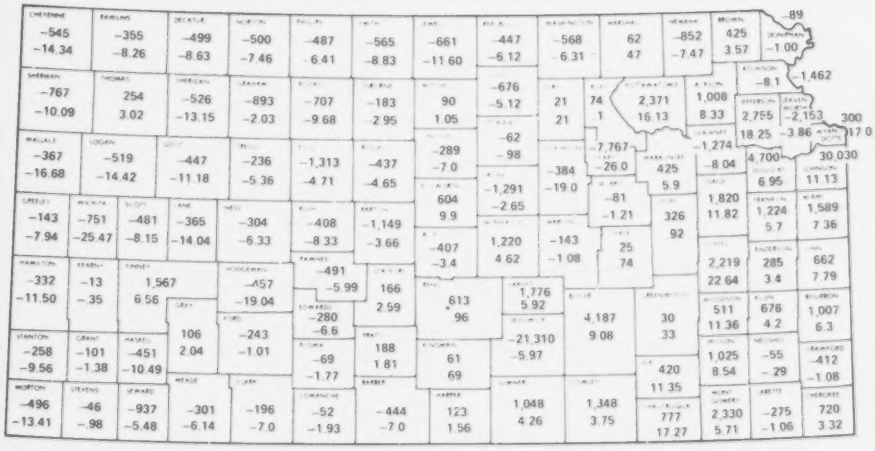
Map 2
Migration in Kansas (1960-70)



Source: U.S. Department of Commerce, Bureau of the Census.

Map 3
Migration in Kansas (1970-80)



Source: U.S. Department of Commerce, Bureau of the Census.

the basic trend is toward an aging population, the Kansas proportion of the over-65 group is notably higher: 13 percent in 1980 as opposed to 11 percent nationally. There is, moreover, significant variation within the state. In 1980, the median age of 84 counties exceeded the state median age (Map 4). Furthermore, while 13 percent of the state population in 1980 were 65 and over, 79 counties had a higher proportion of this age group than the state, and 33 counties had over 20 percent of their population over 65 (Map 5).

These data suggest that Kansas has an older-than-average population not only because people in this state live longer but also because, as noted, the state has experienced a significant outmigration of youth in recent decades. One important consequence of this trend that deserves consideration is the fact that large portions of nonworking-age people place disproportionate burdens on the public service capacity without significantly contributing to the tax base.

C. Population

A further instance of the economic-demographic interrelationship is indicated by the pattern of the state's population growth relative to the nation's. Kansas' slow population growth rate over the past three Censuses is shown in Table 4: in all cases, Kansas' growth has been significantly below the overall U.S. rate (growth rates for three of the state's neighbors are included for perspective). The result of these many years of below-average population growth is indicated in Figure 3 which shows that the Kansas population as a percent of the national total has declined with every Census since 1900. At present, the state comprises about 1.0 percent of the national population after being nearly 2.0 percent at the turn of the century, and Census Bureau projections for 1990 clearly suggest that Kansas will fall below 1.0 percent. Furthermore, in ranking by size, longer term Census projections call for the state dropping from 31st in 1980 to 33rd by the year 2000.

Given that Kansas' birth and death rates closely approximate those of the nation, it is possible to conclude that one major cause for the state's comparative decline in population is outmigration; that is, to an above-average proportion of the populace seeking employment out of state.

III. Recent Kansas Employment Trends and Their Implications

Although employment in the state grew faster than the national average during the '70s—only modestly so, however, for the period 1976-81—and did moderate the state's net outmigration pattern during the decade, this favorable job creation was insufficient to reverse the chronic outflow. Therefore, one central question raised by the data presented in the preceding sections remains: can the principal industries of the Kansas economy grow sufficiently to absorb the projected expansion of the Kansas labor force during the '80s (5.6 percent by 1987), and, if not, can sufficient new industries be attracted to or developed in the state to meet the deficiency in the number of jobs and to provide employment for the higher skilled/better educated portion of the Kansas labor force.

To define more specifically the terms of this twofold question, it is helpful to review briefly some of the material discussed above. As noted, the historical decline in agricultural employment is projected to continue unabated in the future, the effects of which will likely be exacerbated by the anticipated weak growth in agricultural exports in the '80s.[6] As a result, there is little reason to suspect that in the years ahead the farm sector and the industries dependent on it will expand as sources of employment—indeed, there are compelling reasons to think that they will shrink. Also noted was that sectors such as services, trade, and government have played an important role in the provision of jobs for Kansans while the agricultural sectors diminished in that capacity. And yet, as discussed, such industries do not have much growth potential themselves,

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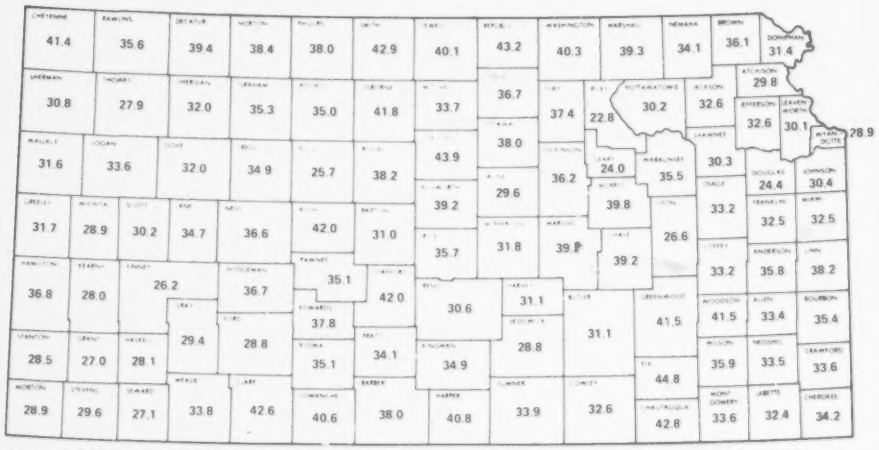
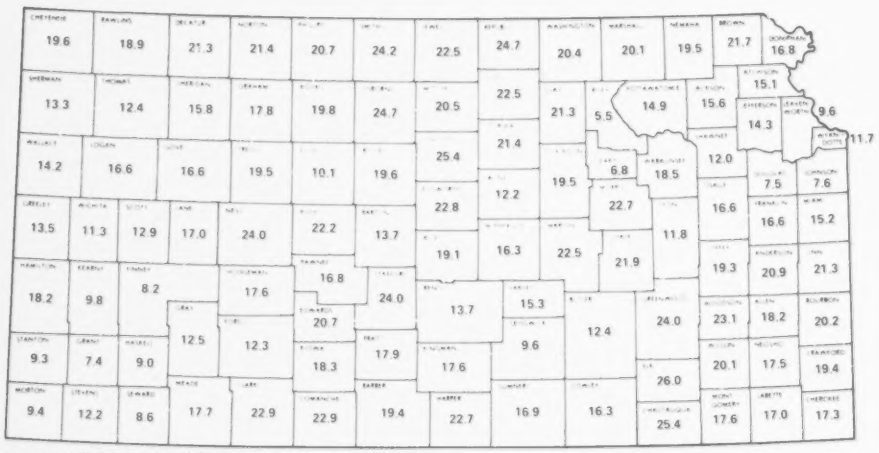
Map 4
Median Age of Population by County (1980)



Source: U.S. Department of Commerce, Bureau of the Census

State - 30.1 years

Map 5
Percentage of Population 65 Years and Over (1980)



Source: U.S. Department of Commerce, Bureau of the Census

State - 13.0%

being dependent upon concurrent, catalytic growth in agriculture, mining, and manufacturing, the basic industries.

Given, then, that agriculture is on the decline and that mining's contribution to employment is discrete and limited by the restricted nature of the state's resources *and* that the relative size of services, trade, and government is approaching the national average (the likely saturation stage for growth), manufacturing appears, by the process of elimination, to be the principal industry with the *potential* for growth and increased employment opportunities.

At this point, the question is now a matter of whether extant manufacturing can grow enough, and, if not, can new manufacturing be drawn to or nurtured in the state. An answer to the question's first part is strongly implied upon considering that the existing manufacturing mix of Kansas, although diverse, tends to be of below-average technology and traditional in character.[7] In an article published in the preceding issue of this journal, McLean concluded, upon surveying the prospects for economic development in Kansas in the decade ahead, that 1) the state does not currently "have a high degree of investment in those industries most likely to grow rapidly in the next decade" and 2) that of those select Kansas industries likely to grow in the near future very few are "high-tech industries."[8] In the light of these findings, it is, therefore, difficult to avoid the conclusion that the potential for rapid growth in the existing set of state industries is not great, a conclusion also implied by the sluggish rate of new business formation in Kansas.[9]

Against this projected context of a comparatively stagnant manufacturing sector in the future, the attraction of new firms to Kansas assumes particular importance, especially those high-tech industries which will be growth leaders in the years ahead. However, a growth scenario based on the continuation of past trends projects an increase of 53-57 percent in the state's present 41,000 high-tech jobs by 1990, with such growth creating about 23,000 new jobs, an expansion rate that would *not* be sufficient to absorb all the state's output of professional workers with skills in high-tech areas.[10] Thus, the "brain drain" for Kansas would presumably continue. The conclusion suggested by this projection is that, if the expansion of high-tech employment in the state is to have more than a ripple effect on the demand (and opportunities) for labor, Kansas will have to capture more than its proportionate share of the forecasted growth of high-tech industry.

With the prospects problematic either for significant growth in the extant principal industries of Kansas or for attracting a significant number of the most dynamic industries to the state, the endemic problem of generating sufficient jobs to mimimize unemployment and the outmigration of workers—particularly those with higher occupational qualifications—appears likely to continue.

This forecast suggests, in turn, that unless past and present trends are reversed a "chicken-and-egg" situation may develop with a shortage of skilled labor hampering the requisite growth necessary to accommodate the growing labor force. Indicative of this possibility is the fact that, in certain years during the period 1978-82, the incidence of CETA-eligibility among the more educated workers in Kansas was higher than it was among such groups nationally, particularly among males, as shown by Table 5. In 1982, the phenomenon was pronounced—all three male Kansas groups with twelve or more years schooling had a higher incidence of CETA-eligibility than the corresponding United States groups, and two of the female groups with twelve or more years of schooling had a higher incidence than the corresponding United States groups. These data are especially significant in view of the fact, at the national level, there was a steady decrease in CETA-eligibility from the least to the most educated group, with each succeeding group with more years of schooling being less prone to CETA-eligibility than the group immediately below it in years of schooling.

In summary, the profile of employment

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Table 4
Population Growth Rates (in Percentage)

Period	U.S.	Kansas	Nebraska	Oklahoma	Missouri
1950-60	18.5	14.4	6.5	4.3	9.2
1960-70	13.2	3.2	5.2	9.9	8.3
1970-80	11.9	5.1	5.7	18.2	5.1

SOURCE: Bureau of the Census

patterns as impacted by industrial development discussed in this section does not suggest that the situation during the 1980s will change markedly from that of the 1970s unless high-tech developments in Kansas prove to be substantially greater than present trends indicate or the manufacturing sector grows much more than anticipated. That is, it seems unlikely that the quantity or quality of jobs generated in Kansas will rise sufficiently to reverse the pattern of outmigration or of a shortage of appropriate employment opportunities for the better qualified individuals unless deliberate steps are taken to change the situation.

IV. The Current Performance of the Kansas Economy

To describe what has happened in the last five years to employment in Kansas, as well as to suggest, by using employment as a barometer for the state's economic condition, why the Kansas economy fell so sharply during and recovered so slowly following the last recessions, a method referred to as shift-share analysis is telling. The starting point for such an analysis is the fact that the rate of employment growth in a state can differ from the rate of employment growth in the nation for two reasons: 1) the industrial mix of the state can be different from the nation, or 2) a particular industry's rate of growth may be different between the state and nation. A state may, for example, have a disproportionate share of slow growing industries, yet these industries may be growing at the same rate as their national counterpart. On the other hand, a state's proportion of slow and fast growing industries may be the same as the nation's, yet the particular industries may grow at a slower rate than their national counterparts. Slow growth, then, may occur for either of these two entirely differing reasons; shift-share analysis is a method to identify the cause. This analysis will show that particular industries in Kansas have, in general, been growing at a slower rate than their national counterparts and that the industrial mix is, practically speaking, merely neutral in terms of its effect on growth.

The data used to perform this analysis are the November 1979 and November 1984 employment numbers for Kansas and the nation. The period of November 1979 was chosen because it is immediately prior to the downward drift in Kansas employment associated with the national recessions; the November 1984 follows the period of recovery and, as such, gives an indication of the strength of the state's response.

The first calculation is to determine what employment in Kansas would have been in November 1984 if the Kansas rate of growth in employment had been the same as the U.S. rate of growth. To do this, the formula used is:

$$E_{K\ 84} = E_{K\ 79} \cdot \frac{E_{US\ 84}}{E_{US\ 79}}$$

where, E is employment, K refers to Kansas, US refers to the United States, and, of course, 79 and 84 refer to November 1979 and November 1984, respectively. Employment in the U.S. was 90,552 thousand in November 1979 and 95,453 thousand in November 1984. Employment in Kansas in November 1979 was 966.7 thousand. Plugging these numbers into the above equation and solving gives 1,019.0 thousand. Thus, if the rate of the employment growth had been the same in Kansas as it was in the U.S. over this period, there would have been 1,019.0 thousand people employed in Kansas in November 1984. In fact, however, in November 1984 there were only 980.9 thousand people employed in Kansas, a difference of 38.1 thousand.

Shift-share analysis will now be used to separate this 38.1 thousand into the part that is explained by the different performances of the particular industries between Kansas and the U.S. and that part that is explained by the different industrial mix.

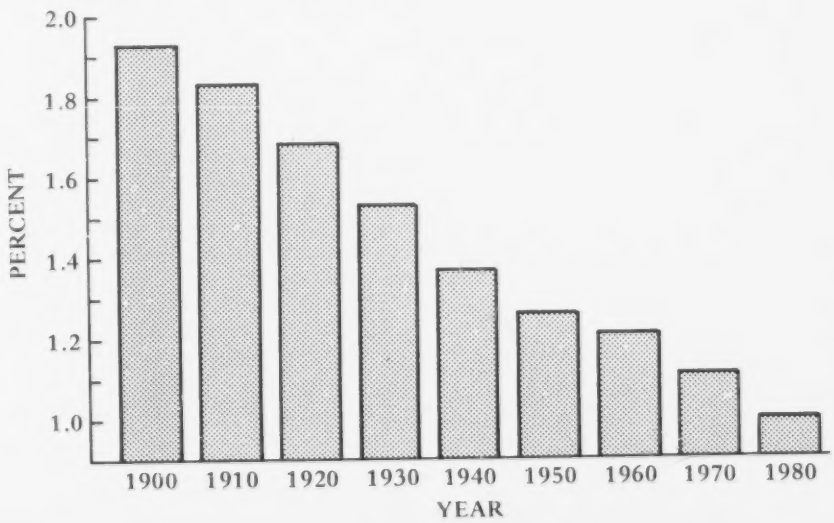
To calculate the former aspect, the formula to be used is:

$$E_K{}^i{}_{84} = E_K{}^i{}_{79} \cdot \frac{US^i\ 84}{US^i\ 79}$$

where the interpretation of the symbols is the same as above with the addition of "i" referring to particular industries.

This formula is used in the calculation of Table 6. Column 1 is the actual employment in Kansas in November 1979 in the indicated industry. Column 2 is the actual employment in Kansas in November 1984 in the indicated industry. Column 3 is calculated by using the above formula. This column represents the number of people who would have been employed in the particular industry if growth in

Figure 3
Kansas Population as a Percentage of U.S.



that industry had been the same in Kansas as it was in the U.S. Column 4 is the difference between Columns 2 and 3. For example, it is seen that employment in Stone, Clay, and Glass was 8.3 thousand in November 1979 and 7.1 thousand in November 1984. If the rate of employment growth in this industry had been the same in Kansas as it was in the U.S. in this period, 7.2 thousand Kansans would have been employed in Stone, Clay and Glass rather than 7.1 thousand. This pattern of loss holds for two thirds of the subsectors in the manufacturing sector and for the services sector, as seen in Table 6.

Summing Column 4 gives -38.4. This figure means that, if the industries in Kansas had grown at the same rate as their national counterparts, employment in Kansas in November 1984 would have been 1,019.3 (980.9 plus 38.4) people employed rather than the actual 980.9.

The influence of the industrial mix can be determined upon noting again that, if employment in Kansas and U.S. had grown at the same rate, there would have been 1,019.0 people employed in Kansas in November 1984. The difference between 1,019.0 and 1,019.3 is insignificant. The different industrial mix in Kansas and in the U.S., therefore, is not the reason for the slower Kansas growth; the reason is simply that the industries in Kansas grew more slowly than their national counterparts.

One problem that this analysis points to—and that is evident upon examining the industrial sectors and their corresponding data listed in Table 6—is that the manufacturing industries are not keeping up with the rates of growth of their national counterparts. These industries are, in general, high paying and exporting industries, particularly so in Kansas, and both aspects mean that jobs lost in these sectors initiate a significant "multiplier" effect throughout the state economy. For example, one study has shown "that employment changes in Wichita are multiplied about 2.5-3.0 times as they diffuse through the state"—employment changes that in the last 15 years are directly traceable to the varying performance of the aircraft industry in that city.[11]

Conclusions to be drawn from this analysis, given its relatively short-term, descriptive character, are necessarily tentative. However, what is suggested is that the manufacturing sector, which has become over time the principal source of the state's economic health, was not strong enough either to resist or to respond vigorously to the recessions of the early '80s as a result, in great part, of the cumulative effects of the debilitating long-term trends described in this study's first three sections.

Table 5
Percentage Ratio of Incidence of CETA-Eligibility in Kansas and U.S.* (1978-82)

Years of Schooling	1978	1979	1980	1981	1982
			Males and Females		
Less than 9	106	82	66	88	67
9 – 11	86	71	77	93	79
12	79	87	48	87	132
13 – 15	106	69	85	64	87
16 and over	119	112	91	76	155
			Males		
Less than 9	116	96	64	80	65
9 – 11	79	77	65	108	85
12	53	74	65	97	119
13 – 15	128	50	79	62	107
16 and over	180	143	27	62	193
			Females		
Less than 9	98	72	70	96	70
9 – 11	92	67	83	82	75
12	95	94	38	81	139
13 – 15	90	83	92	66	72
16 and over	25	76	161	90	105

*Incidence in Kansas as a percentage of incidence in the United States
SOURCE: Calculated from *Current Population Survey*

V. Conclusions

The preceding discussion strongly suggests that efforts to date have not blunted or mitigated the long-term structural changes that have weakened the state's economic and demographic vitality. To summarize, this study foresees—without remedial action—the strong likelihood that the key traditional industries in Kansas will continue their evolving historical record of declining and/or unstable influence and that the traditional service sectors dependent upon them will reflect their relative weakness. Further, the demographic consequences described in Section III are foreseen to continue as well, most notably the migration of human resources either out of state or out of rural Kansas to the state's urban centers. Perhaps, then, this report's key finding in respect to the call for action it poses is that there have been no changes in the evolution of these underlying conditions—conditions that led to the state's acute vulnerability to the 1980 and 1981-82 recessions and that will engender, unless changed, an above-average impact with the next recession.

Given this description of—and forecast for—the Kansas economy, several important points for policy consideration present themselves.

- There is the pressing need to develop the sense, the frame of mind, that economic development is an imperative. Kansans are not aware of the problem giving rise to this need, its dimensions, nor its potential seriousness. There is a dearth of studies, conferences, legislative committee hearings, and the like that would focus on what the problems are and what the policy choices are to deal with them. The issues are too complex, and the world is too competitive, for "knee jerk" reactions. The alternative to growth will include, in a relative sense, reduced incomes, fewer job opportunities, an increased tax burden to maintain roads and other infrastructure, and lower quality education opportunities, to name only some of the more widespread impacts.

- Due to the lack of natural advantage, the state effort will need to be integrated and

orchestrated to be efficient and productive. It must necessarily transcend the traditional approach of state agencies by narrow function and will need to enlist other organizations such as professional and labor groups, local governments, and the universities.

- The state needs to devise a multifaceted strategy based on the premise that the potential and needs of different regions of the state vary. Within this framework, the need exists to identify the strengths and attributes that are statewide (e.g., location, education, and productive qualities of the work force) and those that are local and regional (e.g., wage levels and labor availability) and then to market these qualities in a targeted manner by focusing on that subset of industries that would be attracted to those qualities.

- While the attraction of industry to the state is important, much future development and job creation will come from homespun entrepreneurship and small business development as well as from the expansion and modernization of existing industry. The nurturing of the intra-Kansas potential is less glamorous than competing for a full participatory share of the new "industrial revolution," but equally important and promising.

- The state needs to include one of its best resources—its universities—in the development effort. It is not currently doing so in any consistent or meaningful way.

It needs to be recognized, once the in-state problems have been identified and the need for an enthusiastic policy response acknowledged, that the enemy (the state's competition) is without (other states) and not within (in Kansas, west versus east, northeast versus south central). Other states are mounting a much bigger and much better effort than Kansas is. If the state does not have the resources to emulate the size of their programs, then Kansas must compete by being better organized and more committed.

Table 6
Estimate of Employment "Lost" in Kansas (Nov. '79-Nov. '84)

	Kansas Actual Employment		Industry Projected Employment*	Difference Between Actual and Projected
	Nov. 79	Nov. 84	Nov. 84	
Manufacturing	203.2	177.6	193.8	–16.2
Stone, Clay, Glass	8.3	7.1	7.2	– .1
Primary Metals	4.4	3.3	3.1	.2
Fabricated Metals	14.3	11.5	12.4	– .9
Machinery	37.3	27.3	36.6	– 9.3
Transportation Equip.	57.0	45.0	54.6	– 9.6
Other Durables	12.4	11.3	12.1	– .8
Food and Kindred Products	23.4	26.8	22.2	4.6
Apparel	3.7	3.5	3.4	.1
Printing and Publications	16.6	18.0	18.2	– .2
Chemical	9.1	8.5	8.7	– .2
Petroleum and Coal	4.7	3.3	4.1	– .8
Other Non-Durables	12.0	12.0	11.2	.8
Mining	14.2	18.0	14.6	3.4
Construction	52.1	43.8	50.5	– 6.7
Trans. Public Utilities	65.6	64.8	66.0	– 1.2
Wholesale Trade	63.5	66.8	67.8	– 1.0
Retail Trade	165.6	179.6	180.7	– 1.1
Finance	46.7	52.1	53.0	– .9
Services	167.4	186.0	203.6	–17.6
Federal Government	25.9	26.4	26.0	.4
State and Local Government	162.5	165.8	163.3	2.5
Total	966.7	980.9	1,019.3	–38.4

*This column gives the KS employment in the industry if the rate of growth from November 1979 to November 1984 had been the same as the US rate of growth in the industry.

Footnotes

[1] This article was adapted, in part, from the Institute's Labor Market Information Project Monograph No. 15. The Project was funded by the Governor's Special Grant Component of the Comprehensive Employment and Training Act and was sponsored by the Kansas Council on Employment and Training and the Kansas Department of Human Resources. As well, a portion of the material published here has been drawn from Dr. Redwood's address to the Economic Outlook Conference for Kansas and the Nation—1985, held last fall at the University of Kansas.

[2] Richard Sexton and Robert Glass, "Instability in the Kansas Economy," *Kansas Business Review*, Vol. 6, No. 4-5, March, April-May, June, 1983, p. 1.

[3] See *Kansas Annual Planning Information*, Kansas Department of Human Resources, 1983, p. 39.

[4] Bharati Bhattacharyya, Morris Kleiner, and Anthony Redwood, *The Kansas Labor Market and Migration*, The Institute for Economic and Business Research, Monograph No. 2, Kansas Labor Market Information Project, May, 1982, pp. 3-18.

[5] Kenneth F. Walker, *Young Disadvantaged Workers in Kansas and the United States: 1978-1982*, The Institute for Economic and Business Research, Monograph No. 10, Kansas Labor Market Information Project, October, 1983, pp. 9-17, 39-42.

[6] M. Drabenstot, "The 1980s: A Turning Point for U.S. Agricultural Exports?" Federal Reserve Bank of Kansas City, *Economic Review*, April, 1983.

[7] For a discussion of this contention, see Sexton and Glass above and Robert A. McLean, "Kansas Economic Development in the Decade Ahead: A Method and Application," *Kansas Business Review*, Vol. 8, No. 1, Fall, 1984, pp. 1-7.

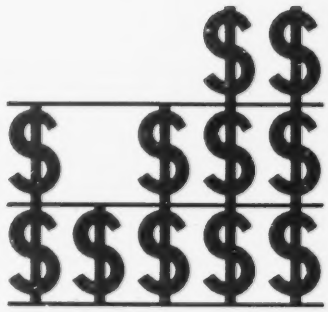
[8] McLean, p. 6.

[9] Note that, from 1978-81, Kansas outperformed the national average in new business formation in only two of the nine major industrial sectors.

[11] Kenneth F. Walker and Anthony Redwood, *Goals and Strategies for Kansas Human Resource Policy*, The Institute for Economic and Business Research, Monograph No. 15, Kansas Labor Market Information Project, January, 1984, p. 36.

[12] Sexton and Glass, p. 10.

The Economic Outlook for the Year Ahead: The Deficit and the Budget



Rudolph Penner

Current Director of the Congressional Budget Office, Dr. Rudolph Penner is former Director of Fiscal Policy Studies and Resident Scholar at the American Enterprise Institute for Public Policy Research. He was formerly Assistant Director for Economic Policy at the Office of Management and Budget and has also served as Deputy Assistant Secretary for Economic Affairs at the Department of Housing and Urban Development. Dr. Penner has edited a compilation of articles on *Taxing the Family, The Congressional Budget Process After Five Years,* and *The Constitution and the Budget* and authored *Social Security Financing Proposals* and *The Budget in Transition.* He has also written numerous articles on tax and spending, contributing columns for various newspapers, including the *New York Times, Washington Post,* and *Los Angeles Times.* Dr. Penner was the keynote speaker at the Economic Outlook Conference for Kansas and the Nation—1985 held at the University of Kansas this past fall. The following article is an edited transcript of his address.

Introduction

Although I will talk a little about the economic outlook, I would like to spend most of my time discussing the budget situation because I think it is so vitally important to any forecast for the year ahead. This focus on the budget may actually show that economics is not an entirely "dismal science," though this may come as a surprise to many of you in the audience. In fact, we at the Congressional Budget Office (CBO) are reasonably optimistic about the outlook and, even, the budget situation.

The Economic Outlook and the Deficit

Although CBO forecast the kind of slowdown and the rate of economic growth that we have been experiencing recently (third quarter, 1984), we actually think this development is healthy for the long run, and we see only a very small probability of a recession through 1985. Indeed, we believe the recovery will continue. Moreover, while we expect a slight rise in inflation next year, we don't view that very modest increase as an interruption of the current downward trend. Rather, the increase results entirely from temporary factors, the most important of which is the end of the appreciation of the dollar which we forecast for next year—a development we have assumed year after year, I have to confess. Nonetheless, we assume it again for next year and assume also that unemployment will continue to fall.

What does this outlook mean for the deficit? In 1984, the deficit was in the mid-$170 billions, and we expect it to stay at that level for fiscal year 1985. After that, given current law and the nature of CBO's economic projections (which essentially assume a repetition of history), we see that deficit rising in absolute terms. Getting very precise about 1989, which one really shouldn't do, we project a deficit of $263 billion.

As gloomy as that picture is, however, it is a lot brighter than the forecast we were making as recently as last February. Although it is almost a state secret, the Congress—in a complicated and somewhat muddled way—has been making considerable progress against the deficit over the last couple of years. Two years ago, for example, it would have been reasonable to expect that defense spending would have been much higher than it is today. Congress also has nibbled away at Social Security and civil service pensions. Granted, they've been small nibbles, but those programs are so huge that even small nibbles add up to substantial savings. Furthermore, the Congress has been very stringent with nondefense, nonentitlement programs and has passed four tax increases in the last three years: TEFRA in 1982, the gas tax, the Social Security payroll tax increases, and this year the Deficit Reduction Act. This legislation has had a big impact. Last February, for example, we predicted the deficit rising steadily from then on—relative to GNP—from about 5.0 percent to about 6.0 percent in 1989. In light of those actions, we now expect it will hold close to 5.0 percent, quite a significant difference. That's all the good news, and it's not entirely "dismal."

But note that I said "not entirely"; one also has to relay the bad news. The bad news is that although we've stabilized the deficit, we have done so at an extraordinarily high level relative to recent history and certainly relative to what one would expect when the economy is, after all, performing extremely well. Moreover, the basic characteristics of the budget remain the same as they have been for the last five or six years; indeed, really as they have been since the mid-1970s.

In terms of growth items in the budget, the two programmatic areas growing fastest are *defense*, which I assume will grow at about 5.0 percent a year in real terms, and *health*, which is growing at a nominal rate of about 12 percent a year, or at a real rate close to 7.0 percent. Defense and health share several interesting characteristics. Neither are delivered with utmost efficiency, and I would argue that, even were both delivered with 100 percent efficiency, they would still be very, very expensive given the fundamentals.

The fundamentals in defense are the enormous commitments that the United States has to defend a great number of geographic areas and to maintain a strategic deterrent. In other words, if you really want to debate the defense budget, you should start a debate on foreign policy; yet this subject does not seem to be very "debatable" in this country. You can debate our defense budget involving 3.0 percent real growth or 7.0 percent real growth, but I think, given the exigencies of our foreign policy, you cannot debate whether growth should be minus 5.0 percent or some figure like that.

With health, the fundamentals are the aging of the population and, perhaps more important in the longer run, the aging of the aging as the number of peope over 80 grows so much faster than the number of people over 65.

Furthermore, I would argue that both defense and health are affected by technological change in a similar, rather ironic way. In most businesses, technological change is a development that saves money. In defense and health,

however, new technology opens up a whole array of options that tend to be extraordinarily expensive—anything from "Star Wars" in defense to $150,000 mechanical hearts in health. My point here is that it will take a fundamental change in policy outlook to alter the present course in either the health or the defense area if anything beyond marginal change is desired.

A third component of the budget that is growing very, very rapidly is not programmatic but is the most frightening of all— that is, the interest on the national debt. Simply as a reflection of what I said before—that we have stabilized the level of the deficit at an extremely high level—the interest bill is growing so fast that the interest itself becomes a very significant part of the budget problem: from a little over $100 billion in 1984 to, by CBO's projections, over $200 billion by 1989, or from 3.0 percent of the GNP to 4.0 percent of the GNP, a full percentage point. Moreover, changing taxes or cutting spending by a percentage point of the GNP to make up for that increase is an extremely difficult political matter, and that fact of political life is also working against any remedial action.

However, the same compounding effect that makes change so difficult when it's working against you can also work in your favor when you do something good. That's one of the reasons the deficit outlook has changed: even though the policy changes in the Deficit Reduction Act were fairly small, they have had an indirect effect on interest payments that is really quite substantial. That effect can be seen easily in the following example: if you cut a program by one dollar so that the cut lasts five years, by the end of the five years you have five dollars *less* debt outstanding. Thus, you not only save the interest on five dollars' worth of debt, you also are saving borrowing the interest in the interim as well as saving the interest on the interest, and so on. All of those effects compound to the point that, if you cut a program by a dollar permanently, by the end of the fifth year you are saving 70 cents in interest—simply through the power of compounding.

For that reason, I think that taking advantage of the "serial" nature of compounding is the whole key to resolving this budget situation; that is, to convert the interest bill, which is now a large part of the deficit problem, into a large part of the solution. In a sense, such a conversion makes the whole situation easier because you do not have to balance the budget: you just have to get the deficit small enough so that every year you are adding less to the debt than the amount by which your income is growing.

Dealing With the Deficit

What are the nation's options in achieving that sort of result? To the extent that we tackle it on the spending side, the most important point to consider about the federal budget is that most of it goes for very few items. There's defense, Medicare, Social Security, and interest on the debt. Add up those four items and you have enough to absorb 90 percent of the revenues CBO projects for 1989. Since revenues are about 80 percent of the outlays, these items amount to about 70 percent of gross outlays.

I have spoken about defense and health, the largest part of which is Medicare, but did not mention Social Security because it isn't growing fast. It is so huge, however, that its contribution to the deficit problem cannot be ignored. Mae West once said, "Too much of a good thing can be wonderful." I think she was talking about Social Security, which accounts for 20 percent of outlays. It is, obviously, an extremely popular program, and the fact that it's a very big program is probably a sign our democracy is working well.

Indeed, I think that all of these programs enjoy tremendous political popularity and that their popularity is the difficulty. You might argue with me a little about defense, but when the "low end" of the bidding for defense is for *more* than 3.0 percent real growth, you have to call that a very popular program. I don't think I have to convince you about the public attitude Social Security and Medicare inspire.

The real question—and the one that's so hard to answer—is: would these programs be so popular if people had to pay for them up front? In fact, we are not paying for them now, so, as I said before, our taxes are covering only 80 percent of our outlays. If ordinary voters associate their tax bill with the cost of government, they are getting a 20 percent discount—little wonder, then, they want so much of it. We are borrowing the rest from abroad—and from future generations. If you could perform the experiment of balancing the budget without affecting the economy, which would be a neat mathematical trick, you would need today a 25 percent increase in every tax in the system if you did the whole "trick" on the tax side.

We might well ask, then, how taxpayers would react to that. Would they say, "Fine, we love this government so much that we're willing to endure that cost," or would they say, "We better re-examine our allegiance to those really important programs— defense, Social Security, and Medicare." It is very hard to get across the size of those programs. I know that it probably seems to be belaboring the point, but we tend in our political life to debate items that are really quite small. Among ordinary voters, the public opinion polls show that what they really dislike is foreign aid. Yet, even defined broadly, foreign aid is less than 2.0 percent of the budget. Similarly, there is a lot of debate about the welfare budget, that is, the income maintenance programs. These programs represent only 7.0 or 8.0 percent of outlays. To indicate once more how large Social Security is, one could do away with the whole Food Stamp program—one of the pillars of the welfare system—and have only enough money to finance a little more than one year's increase in Social Security.

Examples like this identify the orders of magnitude that we are dealing with. Minus defense and health spending, the remaining 30 percent of the budget does everything else: education, transportation, maintenance of justice, space initiatives, and on, and on, and on, through the multitude of services that government performs. So, when talking about the budget, remember the three largest items: defense, Social Security, and Medicare.

Turning to the other side of the budget, the tax options, I like to put the possibilities into three broad categories. One is to increase tax rates. The advantage of that approach is its simplicity: people can easily understand it, and we can all probably sit down and calculate what different proposals would do to us personally. Most economists would not like that approach, however. Regardless of their etiology, most would argue that the fundamental problem with our tax system is that—because it allows so many exceptions, exclusions, credits, and special deductions—there is such a small part of income left over that very high rates must be applied to raise the money needed for the government. The rate of taxation—the rate one pays on extra wage amounts or on the extra little bit of income from savings—is what creates the disincentives in the system.

Most economists would prefer a second option—to broaden, in the jargon of the trade, the tax base and get rid of a lot of those deductions and exclusions so that rates could be kept very low. Thus, the real inefficiency in the system could be reduced. But the problem

Although it is almost a state secret, the Congress—in a complicated and somewhat muddled way—has been making considerable progress against the deficit over the last couple of years.

The bad news is that, although we've stabilized the deficit, we have stabilized it at an extraordinarily high level relative to recent history . . . .

with that route is that it is so complicated—simply because the system is so complicated—that any economist would be hard pressed to make a decent forecast of what eliminating a big chunk of those special provisions would do to us. That, in turn, makes it very hard for the politician because somebody, somewhere, sometime has argued successfully that each of these provisions serves some social or economic purpose. Moreover, each provision (or purpose) has a special interest group behind it, so the political problem on the tax side (in broadening the tax base) is the same as on the spending side (in cutting programs) where each program has some lobbying group behind it.

Revising the tax base, therefore, is very hard, yet I find it intriguing that much of the tax discussion in Washington these days focuses on this class of options. And it is even more intriguing that proposals have emanated from very different points on the political spectrum: the Bradley-Gephardt program, from the Democrats, and the Kemp-Kasten program from very conservative Republicans. What I find most fascinating are not the differences between these two proposals but the similarities. Both proposals articulate the economic philosophy that income should be the basis of taxation, even though there has been considerable academic dispute as to whether the basis should be income or consumption. Both also express the position that a separate corporate tax should be retained, though again a number of academic tax experts have suggested integrating the corporate with the personal tax. So both proposals have made those "decisions"; they have generally selected the same special provisions for elimination as well as some of the same ones for inclusion. There are differences—they do treat capital rather differently in many respects—but, again, it is very interesting that they come from such different "places" and are so similar.

Finally, the third major tax option is to advance some brand-new tax, such as a value-added tax or a new energy tax. This option is talked about a lot, yet what bothers me is the fact that a new tax is a much more complicated idea than would be indicated by most of the discussions so far. No Western democracy to my knowledge has ever been able to implement, for example, a value-added tax with only one rate. Most have at least two, some have as many as four. As soon as the number of rates starts increasing, it gets very messy. All kinds of regulations would have to be written for differentiating one good from another and deciding into which each category falls. A whole "army" of revenue agents would have to be hired to administer it—between 10,000 and 20,000 people to administer a value-added tax, the experts tell us. By the time a value-added tax got on the street, it would be probably two years before the first dime of revenues was collected. I am not saying that all these complications necessarily make it a bad idea, but it is a complicated idea; I think that point has to be made.

Questions and Answers

Question: What sort of progress is being made on implementing the recommendations of the Grace Commission?

Penner: Well, the OMB is supposed to report on the Commission's study fairly soon. One has to understand, however, that the report goes far, far beyond issues of pure management and efficiency. It involves policy changes, which involve political values, which, in turn, mean that many of the Commission's recommendations fall under the rubric that I talked about earlier: fundamental changes in defense policy, health policy, Social Security policy, pension policy, and such. So, many of their recommendations don't propose easy actions because they attack policies and programs that are very popular politically in this country. For example, the Commission recommended that publicly produced electricity be sold at market rates. Well, a proposal was made to raise the price of Hoover-generated power, and the roof caved in. Proponents found that their proposal had no friends anywhere, except for a few misguided economists. In other words, most of the recommendations are intensely political and should be understood in that context. Of course, some of them are not political, and some are being implemented—those that more narrowly focus on issues of management, for example. But those recommendations are not the ones that save the largest amounts of money.

Question: Dr. Penner, help us assign ratios to the 98th Congress deficit reduction. For example, what percent of the reduction came from spending cuts as compared to what percent from tax increases? Was it even close to 20-80?

Penner: That question is a little more complicated than it might seem to be. Although I don't have the numbers with me on the whole 98th Congress, the essential point that I must emphasize again is the remarkable effect on the interest bill of *anything* that is done. So let us take the Deficit Reduction Act all by itself, and use CBO's 1989 projections as an example. That Act raises taxes by $27 billion, given our projections, and, in conjunction with some other legislation, cuts spending programs directly by about $12 billion. In total then, we had $12 billion of programmatic changes on the spending side and $27 billion on the tax side, passed just during 1984, and those effects were sufficient to reduce the spending side another $16 billion because of the effect, over time, on interest. So, even if all you do is change taxes, there is quite an effect on the spending side of the budget because of its effect on the interest bill.

Question: What impact does new business creation have on tax revenue size, and what assumptions do you make in your projections for that contribution?

Penner: To answer, I will speak a little more generally than the terms of your question. As our economy has grown (and I'm really going all the way back to World War II now), there has been a strong trend in increasing services whereas the corporate sector has not grown as fast as the rest of the economy. The major effect of that historical development—as more of the economy is put into partnerships and sole proprietorships where the average tax rate is typically lower than in the corporate sector—is that corporate tax receipts are severely diminished. Indeed, those receipts have gone from our second most important revenue source in the 1950s to a very small proportion of our revenues today. In 1984, for example, it will be quite a bit less than 10 percent of revenues. To the extent that new businesses are proportionately more noncorporate, this is an important effect—and,

It will take a fundamental change in policy outlook to alter the present course in either the health or the defense area if anything beyond marginal change is desired.

If you could perform the experiment of balancing the budget without affecting the economy, which would be a neat mathematical trick, you would need today a 25 percent increase in every tax in the system if you did the whole "trick" on the tax side.

yes, it is in CBO's projections.

This situation also indicates, I think, the urgent need for some sort of tax reform. Many special provisions have been created, but a large number of corporations can't use them all—which is really a great irony. Once you've eliminated your whole tax liability, even if the Congress invents a new tax credit for doing something good (like research and development), the incentives of a very large part of the corporate sector will not be affected because, for all intents and purposes, they are already out of the tax system altogether. More specifically, the irony is the corporate tax has been loaded with so many so-called incentive provisions that they are no longer providing many incentives nor raising much revenue. This is the worst type of tax imaginable—a tax that greatly distorts decisions and that requires an enormous amount of effort for its administration. Although we accept some inefficiencies to get revenues for the government, taxes of this sort are almost all inefficiencies and very little revenues these days. In my judgment, we really have to take a careful look at how we are taxing corporations, in particular, and capital, more generally, in our society. Taxation in the corporate sector is reaching a stage of being beyond human comprehension because of its complexities and eccentric effects.

Question: If we are mortgaging our future by failing to act on the continuing high deficit, why is it that private investors seem to be optimistic about the future? Why, for example, are private investors' savings so high?

Penner: There are a number of developments affecting private investments. First, while we think our situation is terrible—and it is, historically—it is not terrible relative to the immediate situation in many of the Western democracies around the world. Compared to some, we look fiscally responsible, and what I find reassuring is that we are having a solid debate in this country about the deficit, which doesn't happen in many other Western democracies. Canada has a deficit that, translated into U.S. terms, would be over $300 billion a year. I think it fair to say—and I think most Canadians would agree with me—that, nonetheless, the deficit is not a big political issue there. So I am reassured that we are debating it, and so are others. The very fact that we have a debate now, before the situation gets completely out of hand, makes us look quite attractive to players in the international capital markets. We have been helped enormously by being able to borrow these international funds, a large portion of which are, quantitatively, American funds that otherwise would have gone abroad. These funds have kept interest rates, in my judgment, from going even higher and have permitted this investment boom you mentioned. In the short run, of course, the "boom" also has been created by the speed of the economic recovery.

Question: Would you comment on the practicality of trying to require a balanced budget through Constitutional amendment?

Penner: I think you have put your finger on the most important word—practicality. I certainly can understand, and have some sympathy for, the people who are advocating this "solution" because we are now operating without any rules and in a totally undisciplined fashion. Their hope is that putting some rule in the Constitution would enable us to escape this intimidating "chaos." In practice, however, putting some rule in the Constitution is not sufficient to make it so, as we certainly found out during Prohibition. To carry on the analogy, the question is whether the public's desire for booze or deficits is too strong to be repressed by the Constitution. I think that's the practical question because, if that desire is too strong, then, of course, you cannot enforce the rule. I know that the public swears they do not like deficits, just as they swore in the century's first quarter that they did not like booze, and if they really don't like deficits then they probably will enforce that predilection. They will throw out of office any members of Congress who vote to circumvent a balanced budget. But, as I discussed earlier, the deficit does represent a "bargain" for taxpayers in terms of services rendered and their cost, and to balance the budget would mean changing some very popular programs. My point is that, pragmatically speaking, a balanced budget would have such a Spartan effect that ways would be found to circumvent the amendment if the public resisted at all. And, given every wording of the amendment that I have seen, circumvention is easy. There are literally hundreds of ways around such provisions, as the states have taught us. For example, New York State in the mid-1970s provided a lot of instruction as to how to get around constraints in the Constitution; there is no legal way to stop that. The ultimate enforcers, I emphasize again, are the voting public. In New York, the public presumably could see what was going on and liked, in the final analysis, not being bound by the Constitution.

Question: What economic indicators do you consider most important?

Penner: One of the advantages of having a large staff—and a good staff—is that we can watch all sorts of things . . . and we do. When you can watch all sorts of economic phenomena individually, you don't pay a lot of attention to some of the artificial measures that have been concocted. For instance, personally I do not find the index of leading indicators a very useful device. Much more interesting, I think, is to get the flavor of what the particular components are doing.

When forecasting employment, for example, hours worked per week is a very useful piece of data to watch. On an even shorter term level, the initial claims for unemployment insurance are significant. As for housing, I am not a fan of watching permits. I think they tend to lag as much as lead. Sales of existing homes, I think, are a better indicator, a more forward indicator. Consumption is one component that economists have not been able to find a good statistic for; that is, one that would define the relationship among all the contributing factors such as consumer confidence, buying intentions, and actual consumption. As this example shows, forecasting is an extremely difficult art. Paul Samuelson once said that the maximum an economist can forecast is minus one month: if we only knew what happened last month, we would be ahead of the game.

Minus defense and health spending, the remaining 30 percent of the budget does everything else: education, transportation, maintenance of justice, space initiatives, and on, and on, and on, through the multitude of services that government performs.

I am reassured that we are debating the deficit, and so are others. The very fact that we have a debate now, before the situation gets completely out of hand, makes us look quite attractive to players in the international capital markets.

Question: There's been some debate about whether there's going to be another decline in interest rates despite the size of the deficit. Where does the CBO stand on that issue?

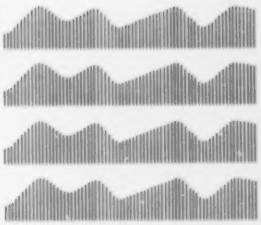
Penner: We regard the issue as very complicated and technical, and it is difficult to summarize all the "ins" and "outs." We have done a lot of work on it because it is so important to what is going on. Reviewing the literature suggests that a literal relationship between deficits and the level of interest rates is very hard to find. My personal conclusion—and I am not even sure that my staff would back me up fully on this— is that the causal relationship between the deficit and the rate level is not the dynamic to look at. Rather, the relationship to look at is the total stock of the public debt outstanding relative, ideally, to wealth (or GNP as a proxy for wealth). To the extent that statistical studies give any relationship at all, that is where it is, but I would not want to exaggerate the reliability of this conclusion. If you think about the mathematics of the relationship (and you can assume for the moment that it is the stock of debt that determines the level of interest rates along with a lot of other variables), then, of course, the deficit (which is the change in the stock of debt) should be mathematically associated with the direction of change in the interest rates—a very, very different mathematical relationship, obviously, than if you went out as an economist, as many economists have, and associated the deficit with the level of interest rates. Then you get nonsense, and, in fact, what most empirical studies get is nonsense. But I do not want to claim that economists working on the stock get elegant statistical relationships; they don't. I would just say their results tend to be better. In terms of economic theory, Keynesian theory would give you some inclination to associate the deficit with the level of interest rates. Longer run neoclassical theory, I think, would associate the stock more. Still it is very complicated, and the problem for economists and statisticians is that, because so many factors change simultaneously, it's very difficult statistically to separate them out.

Question: Could you discuss the so-called "nationalization" of banks, such as the rescue of Continental Illinois?

Penner: You are right that the Continental Illinois situation is often referred to as a nationalization of a particular bank, but what that terms means essentially is that, in responding to an emergency situation, a deal was negotiated that does ultimately, or can ultimately, leave the FDIC holding a very large number of the shares of that bank. The exact amount depends on how many of the loans taken over from Continental can, in fact, be collected on. I suppose the questions are, then: was the response to Continental a good thing, could it have been accomplished so as to represent a better "deal" for the government; could it have been rearranged in some way so there was not as much government intrusion. Those are very difficult questions to answer. To be sure, a bunch of Monday-morning quarterbacks could sit around and say, "Well, maybe you didn't have to give on that point, or you didn't have to give on this other point," but, even though I hold the banner of "free enterprise" quite high, I believe that Continental was a very serious problem. A lot of banks had deposits in Continental, as you know, and overall I would give our monetary policy and regulatory structure very high marks for how they dealt with this situation. Not only with Continental Illinois, but with Penn Square and some of the others that have gone down recently. The pure free-enterprise economist would say that, ideally, what you want to do in that situation is to take the equity away from the shareholders of the banks, but not let any of the other depositors suffer. Well, that is a very tough condition to arrange, and I think with Penn Square the Fed did it almost precisely and with the Franklin National, way, way back, they also did it almost precisely. We do not know yet how it will all come out with Continental. But I doubt that, other than in an emergency situation, there is any serious notion of nationalizing nonproblem banks.

. . . the deficit does represent a "bargain" for taxpayers in terms of services rendered and their cost, and to balance the budget would mean changing some very popular programs. My point is that, pragmatically speaking, a balanced budget would have such a Spartan effect that ways would be found to circumvent the amendment if the public resisted at all.

Reports from the Economic Outlook Conference for Kansas and the Nation



Kansas Property Tax Reappraisal and Classification: A Debate

Harley Duncan

Ron Gaches

The two succeeding articles are abridged accounts of speeches delivered by Mr. Harley Duncan, Secretary of the Kansas Department of Revenue, and Mr. Ron Gaches, Governmental Affairs Manager of United Telephone of Kansas, at last fall's Economic Outlook Conference. During a panel session devoted to *Issues in Kansas Property Tax*, moderated by Dr. Glenn Fisher, Professor at the Center for Urban Studies at Wichita State University, Mr. Duncan spoke in favor of a Constitutional amendment allowing classification, Mr. Gaches against the proposition.

Yes, for the following reasons . . . .

I would like to present the arguments supporting the adoption of a classification amendment. To define our terms more precisely, a classification amendment is really a Constitutional amendment that would allow assessment of different types of property at different percentages of fair market value. The current administration of the state has long been a supporter of the reappraisal of real property if accompanied by a classification amendment, and later I will address some of the reasons why this proviso is extremely important.

In my view, five reasons support a classification amendment. First and foremost are the consequences if we do not have such an amendment. That is, if we reappraise real property and do not classify, we will create a shift in the property tax burden in Kansas of immense proportions. Kansas is now in a situation where agricultural land, instead of being assessed at the 30 percent of fair market value that the law requires, is assessed at something like 5.0 to 5.5 percent of fair market value. Residential property is assessed between 8.0 and 9.0 percent of its fair market value; commercial and industrial real property, some place between 10 and 12 percent of fair market value. Personal property, particularly oil and gas, vehicles, and other machinery and equipment, is at or near 30 percent. The public utility property that is state assessed is also at or near 30 percent. So we clearly have a situation that does not meet our Constitutional requirement for equal and uniform treatment. What we have, in summary, are tremendously different assessment ratios among classes of property.

This situation accounts for the problem that will be created if we are to reappraise and put on the books new values at 30 percent of fair market value without classifying. The numbers would go something like this: agricultural land, accounting now for about 15.5 percent of all assessed value in Kansas, upon reappraisal and adoption of "uniform and equal" to 30 percent of fair market value, would go to 33.3 percent—over double its current proportion of assessed valuation. Residential property would climb from something like 18.5 percent of all assessed valuation to over 25 percent, a 40 percent increase in the assessed value on residential property. All real estate now accounts for just under 50 percent of the assessed valuation; it would go to over 80 percent of the total assessed valuation if we went to the uniform and equal requirement. State-assessed property would drop from about 19 percent of all assessed valuation to about 7.0 percent. Oil and gas would drop from about 17.5 percent of the assessed valuation to less than 7.0 percent.

It's easy to figure out the direction toward which the burden is going to shift: it is going to shift from those properties that are close to the legal requirements now onto those properties that are now farthest from the legal requirements. That is, from state-assessed oil and gas and public utilities to agricultural land owners and residential land owners. The Department of Revenue estimates that, of the total property tax take in Kansas of approximately $1 billion, a shift will occur of approximately $200 to $225 million in the property tax burden onto agricultural and residential land owners simply as a result of reappraising and putting property on the books at 30 percent of its fair market value.

From a tax policy standpoint, this "overnight" shift of over 20 percent of the total burden from one group of taxpayers to another puts a tremendous strain on the system, a strain that, I believe, no tax system in the world could stand. The effects on agricultural land and residential home owners would be extremely deleterious, the political repercussions would be dramatic, and the tax system would be assaulted, in turn, by further amendments and procedures to control property taxes that would put us in a far worse situation than we have now. That's one reason I believe classification is necessary: to minimize the shifting burden among groups of taxpayers.

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. . . having a uniform and equal property tax system without classification does not acknowledge . . . the changed relationship between owning property, on the one hand, and the ability to pay on the other.

The second reason supporting the classification of property is that it brings the property tax into the 20th-century context rather than leaving it in an 18th- and 19th-century context. In the 18th and 19th centuries, the accumulation of property was a pretty good indicator of wealth, probably a pretty good indicator of income, and also a pretty good indicator of ability to pay. Yet, I submit that the concept of property, the types of property, and the mix of property in this country have changed since the 19th century and that having a uniform and equal property tax system without classification does not acknowledge that change, particularly not the changed relationship between owning property, on the one hand, and the ability to pay on the other. I'm thinking particularly of two types of property: residential property during a rapidly inflating home-value period and agricultural land carrying any speculative value placed in purchases and price depreciation of farm land. For the home owner, the value of the home is going up, but that is an accumulation of wealth which does not, in itself, translate into current income. Yet the property tax liability, of course, is a draw on the current income. Thus, the uniform and equal tax system taxes an accumulation of wealth that may or may not be realized by the home owner. If it is realized, it will be realized at some point down the road, and presently the taxpayer may not have the current income to support that liability. The same situation may apply to the agricultural land owner: there is an accumulation of wealth that may or may not be realized at some point in time, but there is also a tremendous draw on the current income.

In a kind of a backhanded fashion, a classification amendment can take cognizance of these situations, and, with lower assessment ratios on agricultural land and residential homes, take account of the fact that the appreciation in wealth does not translate into current income. To get the income back when the home or land is turned over and the gain is realized, there is a procedure called "recapture." That is, if a land or home owner is given preferential assessments for a period of time, and then the property is turned over to another use, the tax system can capture that accumulated wealth by going back and recapturing the property tax.

The third reason for supporting classification is that it allows the tax system to deviate from the fair market value standard for assessing special pieces of property. For example, with classification, the system could incorporate a use-value tax for agricultural land, a feature disallowed by uniform and fair market value standards but favored by many economists and tax analysts. Moreover, under classification, something other than fair market value could be given to commercial and industrial manufacturing machinery and equipment and to merchant's and manufacturer's inventories. Such an allowance would address the argument that to place fair market value on them is a disincentive to investment. That argument claims that to get a fair market value the original cost of that piece of equipment must be inflated in order to depreciate its value out. With classification, the system could take the original cost less some straight-line depreciation, then write that piece of machinery off, creating an incentive to invest. This can't be done under fair market value. The point is that, while classifying to avoid the $200-225 million property tax shift, some of the critical problems with other types of property in our property tax system can be taken care of.

Another reason I argue for support of classification is that it would seek to account for the consequences due to the inequities that presently exist within classes of property in Kansas come reappraisal. As a general example, simply take the case that an older home with the same sales value as a newer home is comparatively under assessed. In itself, that is a situation that can be remedied with reappraisal instituting a fair market value standard for all similar types of property. But my point is that yet another dramatic shift of the tax burden then occurs; this time within that class. Without classification, therefore, the result is a compounding of the shift that would occur among classes by the shift within classes, a development that could portend, in turn, the likelihood of an instinctive and ill-conceived tax revolt.

A final reason for supporting classification is that, if we go ahead and reappraise—that is, put it on the books with the uniform and equal standard, thereby shifting that $200-225 million from the state-assessed commercial and industrial business-related properties to home owners and agricultural land owners—then the tax system in this state will become more regressive than it already is. Property tax is considered a particularly regressive tax measured in respect to income, i.e., the percentage of income going to the property tax declines as income increases. Moving to uniform and equal treatment without classifying accentuates that relationship, a situation which, I would say, the majority of economists and tax experts finds particularly intolerable, especially if sustained over a long period of time.

In summation, I would stress this one major point: if the state reappraises and does not classify, it will shift over $200 million of the property tax onto the residential home owner and the agricultural land owner. This is a total shift of 20 percent of the tax burden, and I think this development would have a number of undesirable effects, not the least of which is that it would limit the capacity of governments in Kansas, especially local governments, to serve the public.

Harley Duncan

No, for the following reasons . . . .

Almost all Kansans familiar with the issue believe that there will be statewide reappraisal in the near future. The question is then: do we comply with the existing uniform and equal mandate found in the Constitution, or do we move toward some alternative property tax system? Yet this question needs to be qualified somewhat before an answer can be given because I don't think anyone in the Legislature or the Governor's office, or even the multitude of lobbyists who have been working on this issue, genuinely believes that any serious effort will be made to move the system back into full compliance with the uniform and equal mandate without, first, trying to resolve the problem of the shifting tax burden onto agricultural land and residential property owners.

However, proponents of classification frequently couch their arguments in the context of its advantages over, if you will, the worst case scenario of moving directly to the uniform and equal mandate. Again, I don't think anyone is reasonably projecting that we are going to reappraise all real estate in the state of Kansas and then, the very next year, use those full values to levy the property tax. That has not been the position of the overwhelming majority of the opponents to classification. Speaking as one such opponent, I think that the state should explore the numerous alternatives which mitigate the tax-shift problem to homeowners and agricultural land owners but which stop far short of the multiclass classification proposal that has been advanced by the current proponents of classification.

I would like to examine for a moment the reasons for stopping short of endorsing further classification in our property tax system,

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adding parenthetically that I said "further classification" because we currently have a classified property tax system: what we try to tax under the uniform and equal mandate, what we exempt, and what we exempt in property tax in favor of another tax. One reason should have been gleaned from having observed the 1984 legislative process as it tackled this issue. That exercise in futility did show something positive: to advocate classification as a blanket policy versus uniform and equal is a theoretical debate wonderful for economists to engage in, but, once treated as a political process, the play of special interests becomes so intense and complicated that the result is a further narrowing of the tax base and the creation of further inequities in the taxing within and among classes. Faced with such an incoherent package created by just such a process, not surprisingly the Legislature in 1984 ultimately refused to act on the proposal. The lesson drawn from this experience should persuade us that, once classification enters the political arena, it exacerbates rather than remedies the ills it presumes to address.

Another reason against classification arises from realistically analyzing the position of proponents that says the tax burden on homeowners and farmers is already too high or, at least, shouldn't be any higher. Looking carefully at that argument reveals the unspoken premise that, if taxes are too high, a new tax system must be needed. It is this idea that I think must be examined very rigorously. At the outset, I think it is fair to say that residents pay 20 or 22 percent, maybe even as high as 25 percent, of the total property tax liability in the state. If that's true, I think we then need to factor that into our analysis when looking at comparisons in per capita tax burdens which indicate that Kansans pay higher property taxes than the national average. We do have a very high reliance on personal property taxes in the state of Kansas, but those taxes are paid primarily by business taxpayers, not by individuals. I would submit to you that, while Kansas property taxes may be high solely on a per capita basis, the burden, at least initially, does not fall disproportionally on Kansas homeowners or farmers. Instead, the burden falls on Kansas businesses and public utilities, where, in turn, it is passed on to the eventual purchasers of those manufactured goods and to the purchasers of gas, electricity, and the telecommunications services provided by our public utilities.

This high level of indirect taxation should be of concern to all of us. It adds to the cost of necessary consumer items such as food, drugs, and necessary utilities. It affects our business climate, and, as an indirect tax, it must still be paid by the eventual consumer, yet it cannot be subtracted from federal gross income in calculating taxable income. Furthermore, because it is a hidden tax, Kansas voters have been misled as to the true cost of government services. And this final consideration, while a bit abstract perhaps, should be of interest to all concerned about the quality and funding of state and local governmental services.

To return now to the unspoken premise that, if taxes following reappraisal are too high, the state must need a new tax system: in my view, this problem concerns the tax rate and spending levels and does not imply the need to change the tax system. If residential property and farm property taxes are too high following compliance with the uniform and equal mandate, then perhaps the property tax is being asked to do things it was never intended to do. Originally, the property tax was imposed only to provide funding for services to property: fire and police protection, streets, sewers, and the like. With the imposition of school finance onto the property tax base, the government has imposed a people-oriented service to be funded by a property-related source, and I think we need to question whether that incongruity between means and ends should continue in the future.

I want at this point to discuss some of the alternatives to classification. First of all, I am not, as noted, an advocate of the immediate return to the uniform and equal mandate, and I think there are few advocates of that type left in the state. Instead, I think that it needs to be acknowledged that whereas the proportion of the tax shift coming with reappraisal will, indeed, be huge, it need not be immediately so. What was proposed in 1981 by the State Chamber of Commerce was a ten-year phasing in of the shift of tax burden caused by reappraisal and compliance with the uniform and equal mandate. Arkansas has adopted, and is now into the fifth year of, a similar type ten-year phase-in of the shift back to compliance with the uniform and equal mandate. That is, I think relief can be earmarked for homeowners and farmland owners without having to move to a multiclass classfication proposal. Low income homeowners are already protected to some extent by the Homestead Property Relief Act, and I would urge further that there be consideration to providing across the board a measured exemption for all single family residential property.

Let me explain how this might work. Let's assume that we were to pass—and this would require authorization of a Constitutional amendment—an across-the-board exemption of the first $10,000 of residential property value from the property tax base. That means that someone who lives in a relatively modest home, say a $50,000 home, is going to receive protection of 20 percent of their property tax value; that is, protection against the property tax being levied on the first 20 percent. At the same time, someone who resides in a $100,000 home will receive only 10 percent protection. It occurs to me that this system is more progressive and less regressive than a classification proposal that locks everybody into the same percentage low assessment level. If you lock in residential property at 6.0 or 8.0 percent, then you provide the wealthy, who have the ability to pay higher residential property taxes, the same advantage as those individuals who are poor or live on a fixed income, which, I don't believe, should be interpreted as being more progressive than the uniform and equal mandate.

The question of agricultural land protection has already been addressed by the voters of Kansas. We adopted in the mid-1970s a provision of the Constitution to provide for use valuation of agricultural land. We have not yet implemented that provision because representatives of agricultural organizations have been unwilling to compromise with legislative leadership on what the capitalization rate for that use-valuation process should be. I believe and advocate that you can protect agricultural land from significant property tax increases following reappraisal with use-valuation procedures.

The lesson drawn from the 1984 legislative experience should persuade us that, once classification enters the political arena, it exacerbates rather than remedies the ills it presumes to address.

The question then remains as to how much protection should be provided them. If the state wants to provide them a lot of protection, then a high capitalization rate is used. If only a little bit of protection is desired, then a low capitalization rate is employed. The point is, simply, that a decision is made: we do not need a comprehensive multiclass classification proposal to do that. It requires only the passage of a single bill by the Legislature and signature by the Governor.

Ron Gaches

Multibank Ownership in Kansas: A Debate

Pat Hurley

Noel Estep

The subsequent two articles, drawn from a Conference panel on *Issues in Kansas Banking*, are abridged accounts of speeches delivered by Mr. Pat Hurley, Executive Director of the Kansas Association for Economic Growth, and Mr. Noel Estep, President of the Southwest National Bank in Wichita. The session was moderated by Dr. Maurice Joy, University of Kansas Professor of Business Administration. Mr. Hurley spoke in favor of legislation allowing multibank ownership in the state, Mr. Estep against.

Yes, for the following reasons . . . .

There are two essential questions that need to be addressed. The first is, "What is the real issue?" The second, "What should be done about it?" The real issue is this: can Kansas banks effectively meet the credit needs of Kansas consumers under our current restrictive state laws? What makes this question critical and timely is the deregulation of financial institutions by Congress and the rapid rise of powerful, new, unregulated competitors to Kansas banks. Every other state has addressed this issue by beginning to modernize its banking laws. Only Kansas has yet to begin. By way of answering these key questions, we should explore the character of this new competition and see, as well, what other states have done about it.

The new competition is fourfold. The first comes from the other traditional financial institutions within state: savings and loans, finance companies, and credit unions. Each are now armed with new powers from Congress, virtually making them equal to banks in many service areas. But each has one important competitive advantage over banks: they can branch statewide and can merge without restriction. Banks cannot. As a measure of this competition to Kansas banks, just consider these facts. Today in Kansas there's a single savings and loan with 21 branches, another with 17, one with 18, and another with 19. In Johnson County alone, there is a savings and loan company at 40 different locations, and, under the law, more can be added tomorrow.

The second area of new competition to Kansas banks is interstate banking. Congress has set the stage for—and all studies indicate that it will likely conclude with—the removal of all geographic barriers. Moreover, any reading of newspapers will daily reflect that the actual process has already begun despite laws still on the books that seem to prohibit and restrict these activities.

The third area comes from the sudden rise of the so-called "nonbank" bank. This phenomenon occurred almost overnight when the Federal Reserve Board ruled that an institution was not a bank if it did not both take consumer deposits and make commercial loans. Such an institution is, therefore, immune from restrictions against interstate banking under the law. As a result, over 300 applications to establish "nonbank" banks in virtually every state were filed with the comptroller. Congress recently adjourned without acting to close this loophole in the law, and the comptroller's office has now indicated that it will begin approving these applications in the immediate future.

The fourth newly competitive area to Kansas banks comes from a totally new competitor, retailers. With ready-made claims to turf and local bank neighborhoods, Sears, Penneys, Prudential, American Express, Safeway, Kroger, K-Mart, Venture, Merrill Lynch, and many others are all experimenting with offering financial services nationwide within their existing outlet networks.

All of these new competitors can offer their services anywhere within the state with no limitations as to location in direct competition with Kansas banks for Kansas customers and Kansas dollars.

Why can't Kansas banks compete effectively? Kansas banks unlike savings and loans cannot grow by adding locations in growth areas since branching for banks is prohibited; nor can a Kansas bank grow by acquiring an existing bank in a growth area, since multibank ownership is also prohibited. Every other state has modernized its state laws to allow its banks to do one or another or both in order that their banks can effectively compete and grow. In fact, 47 states now allow multibank ownership, 42 states allow some form of branching, and all states, except Kansas, allow one or another or both. Only Kansas prohibits both by law.

What are we who propose change seeking then? Many of us—I among them—advocate removing only the prohibition on multibank ownership. A branch-banking prohibition would remain the law of the state as it is today. The effect of our requested change on Kansas banks would be minimal. No bank would be affected, unless it entered into a business transaction as a willing buyer or willing seller. No bank would be required to form a bank holding company, to join a bank holding company, or to sell to a bank holding company. This change would not provide new competition to any existing Kansas bank; it would merely result in a change of ownership. The number of banks serving Kansas communities would remain exactly the same. On the other hand, there is this one significant effect: the change would provide a safe and carefully regulated method for a bank to increase its economic base to meet its increased credit demands and to deal with its new competition.

The Kansas banking laws which we seek to change were written almost three decades ago, in 1957, at a time when banks competed basically with just other banks. These laws, at the time, served the public interest by regulat-

Every other state has addressed this issue by beginning to modernize its banking laws. Only Kansas has yet to begin.

Ironically, today, the law that once protected banks from competition now restricts them from effectively meeting their competition.

ing the industry. But they also served the private interest of the industry by restricting competition. Ironically, today, the law that once protected banks from competition now restricts them from effectively meeting their competition.

What has been the evidence that persuaded these other states to change their laws? Essentially, the evidence in each state established two factors: one, the need to protect a state's domestic banking industry from the new national competition and to prepare it for the inevitability of interstate banking, and two, the need to give its banking industry the structural flexibility to grow along with the state's economy.

Of the only three remaining states today that don't allow multibanks—Kansas, Mississippi, and Indiana—pro-legislation appears certain to pass next year in Indiana, as all of the parties there have agreed to a single legislative proposal allowing it. The single remaining state other than Kansas, Mississippi, has not seriously pursued the legislation to date because of its extremely liberal branching laws.

A primary justification for the passage of various multibank state legislations has been studies tying bank structure directly to economic development. Such studies in Arkansas, Kentucky, Oklahoma, and Indiana all conclude that flexibility in bank structure is vital to the future economic growth of those states. Similar studies in Kansas have reached the same conclusions. Two different task forces appointed by Governor Carlin, one on capital formation and one on high technology, found that current Kansas banking laws served as an impediment to the state's economic growth and development. The Kansas Chamber of Commerce and Industry studied this issue for several months earlier this year, and it too reached the same conclusion.

Several recent academic studies also reached similar conclusions. Professors Randel R. Hayden and Samuel G. Webb, both economists at Wichita State University, recently published papers concluding that the current restrictions under Kansas banking laws placed Kansas banks at a serious disadvantage with respect to other financial providers in the state. A lengthy study done by Professor Jack Gaumnitz of Kansas University also reached the overall conclusion that a multibank holding company structure is more beneficial to the public interest than a unit or independent bank structure.

Over the past two years, arguments of multibank opponents have fallen into two categories: one, that nothing has occurred to merit a change in our laws and that they are still adequate; and two, that if any change is needed, multibank authority is not the answer because of all the detrimental effects it would have.

For one to agree with the first argument, one would have to accept all of the following. First, in spite of the fact that 49 other states have modernized their banking laws, Kansas banking laws are still adequate. Second, in spite of the fact that other Kansas financial institutions now have a major competitive advantage, Kansas bank laws are still adequate. Third, that in spite of the fact that interstate banking is spreading rapidly across the country, Kansas banking laws are still adequate. Fourth, in spite of the fact that "nonbank" banks are proliferating throughout the country, Kansas banking laws are still adequate. Fifth, in spite of the fact that most major retailers are now providing unregulated financial services in direct competition for bank customers, Kansas banking laws are still adequate. Sixth, in spite of the fact that the Kansas Chamber of Commerce and Industry, Governor John Carlin, the Governor's task force on high technology, the Governor's task force on capital formation, the past three secretaries of economic development, and the Kansas Industrial Developers Association have all concluded that current Kansas banking laws inhibit the economic growth and development of this state, Kansas banking laws are still adequate.

In response to the second argument that a change allowing multibank authority would be detrimental to the state, we at the Kansas Association for Economic Growth surveyed the bank commissioners of 47 states for their evaluations as to the detriments and the benefits to their states from such a law. While the answers varied on many specifics, there was a number of uniform answers. First, none of the commissioners indicated that the multibank structure had had a detrimental impact on agricultural lending in their states. Second, none indicated that the multibank structure had had a detrimental impact on consumer lending in their states. Third, none indicated that the multibank structure had had a detrimental impact on business or commercial lending in their states.

On the other hand, when asked to describe benefits to their states from multibank structure, 20 commissioners said it resulted in additional capital available for loans to bank customers, and 25 responded that it resulted in an increase in the size of individual loans to bank customers.

In evaluating the arguments of each side, I would suggest that you apply the same test a jury applies. After hearing all the testimony and arguments, the judge gives the jury a key instruction: in weighing the evidence and arguments, jury members are advised to apply common sense in arriving at their decision. Use common sense and ask yourself these two questions: first, if, as the opponents argue, no change in our laws is really needed, why has every other state except Kansas decided to abandon pure unit banking; and second, if all of the detrimental consequences predicted by the opponents do, in fact, occur after passage of such legislation, why hasn't a single one of the states taken action to return to unit banking?

Stripped of all of its emotion and rhetoric, the basis for the arguments by the opposition becomes quite clear: it is simply opposition to change. The opponents will argue "if it ain't broken, don't fix it." But, of course, a thing doesn't have to be broken to require a change to something better. To say otherwise would be like saying that we should continue to drive model T-Fords on today's expressways just because they once served their purpose so well.

All of the banking changes I described are occurring and will continue to occur. No one can stop them, nor can we return to the way life was in the "good old days." That is to say, the banking structure that served us well in the past is, in fact, not the best structure to service us adequately today.

Pat Hurley

No, for the following reasons . . . .

Even though I will speak against legislation allowing multibanking in the state, I do want first to identify some developments that I am in favor of. The first is economic growth throughout the state of Kansas. Obviously, my chosen field, banking, survives on the number of customers banks are able to serve. Like any other business, banks must continuously seek out new customers. To do that, we bankers have to provide new services; we have to see our marketplace grow. It is, therefore, in my best interest and the interest of every other banker in Kansas to foster and encourage the growth of the state's industries. It follows, then, that I am also in favor of placing an emphasis on securing additional high-tech industry in our state.

I'm also in favor of competition. I believe that fair competition provides better run companies in any industry and that it provides customers with the maximum benefit in both goods and services. I submit that we do have competition today in the banking industry and that we'll have more of it as deregulation progresses. Indeed, this competition has led to a great variety of innovative programs and services for our banking customers, both in investing and in lending. All of this is to say that I am in favor of progress, good, honest progress that will benefit the state and its citizens for years to come.

One of the developments I do not favor—for several reasons—is multibank holding companies in Kansas. Obviously, not everyone agrees with this position. Earlier this year, for example, an editorial in *The Wichita Eagle-Beacon* stated that "artificially limiting the growth of banking corporations also limits the formation of capital in Kansas and the state's potential for economic growth," but I say that multibanking by itself does not either increase the growth of banking corporations or create any new capital in those banking corporations. The fact is that, economically, banks grow larger because of increased population, which, in turn, brings increased business activity, which, in turn, brings increased deposits. When properly utilizied, then, deposits increase the earnings of a bank and, in turn, the bank's capital. This fact is at the heart of my objection to multibanking in Kansas.

Kansas has approximately 620 banks with about $18 billion in deposits and about $1.7 billion in capital. If multibanking were to come to Kansas tomorrow and all of the Kansas banks were tied together into one giant multibank holding company, there would still be $18 billion in deposits and $1.7 billion in capital. I further remind you that a bank's capital determines a bank's loan limit. The loans come, of course, from the deposits. Multibank holding companies do not have any larger loan limits than unit banks; they merely have combined loans limits. No affiliate bank can make a loan larger than its individual loan limit without participating with other banks in the holding company.

If you think about it, the ability of the multibank holding company to meet the credit needs of a very large corporate borrower rests primarily on the operating characteristics of the multibank holding company. That is, on whether the lead bank operates its subsidiary banks as a single integrated unit or on a decentralized basis. To obtain the largest possible loan limit and to have the deposit funds available for such a loan, a multibank holding company would have to operate, I believe, on a highly integrated basis. For example, under the proposed 11 percent size limitation, we would have 10 multibank holding boards—located most probably in Wichita, Kansas City, and Topeka—making all the banking policy decisions for the state of Kansas. This situation is a far cry from the 620 competitive decision makers which we have today.

For this reason, I believe that the assumption that large corporations will not move into Kansas without large banks is false. The decision of a large corporation to move into a particular state is based on a number of factors, including size and location of markets, supply and training of the work force, natural resources, access to materials, local tax rates and incentives, and the cultural and social environment. The fact that we permit multibank holding companies in the state does not necessarily assure that large corporations will locate in Kansas or that any bank in Kansas will be large enough to serve them if they do. Nor do multibank holding companies assure that any corporate customer in Kansas will, in fact, do its business with Kansas banks.

My point basically is that the question of permitting multibank holding companies in Kansas is a question only of the ownership of banks and not one of economic growth. It is the lending philosophy of the banker that determines the aggressiveness of the bank toward developing industry, not the structure of the banking system within which the banker operates.

I've told you why I think multibank holding companies will not increase economic growth in Kansas or stimulate banking competition. Now I would like to tell you what I think they *will* do: I believe, as noted, that they will lead to a concentration of the state's banking resources. A multibank holding company's decisions are designed to strengthen its position in the marketplace and to increase its profits, which is the way it should be under our economic system. Historically, the way a multibank company strengthens its position in the marketplace is by acquiring competing banks and, thus, monopolizing the local market area. After a time, a few large multibanks control most of the banks and, subsequently, most of the banking resources in the state.

As of December 31, 1981, statistics show in our neighboring states of Colorado and Missouri that multibank holding companies controlled approximately 69 percent of the commercial bank deposits in each state. The percentage is even higher on the two coasts. This pattern strongly suggests that large multibank holding companies will come to control the vast majority of the deposits in Kansas and that the lead bank will make profit decisions for their affiliates, no matter what part of the state the affiliates are located in. Resources within the multibank corporations will be shifted, therefore, to the highest profit center.

As we all know, Kansas is primarily an agricultural state, with many small- and medium-sized communities. In my opinion, it would be a mistake to change the banking structure which has served this state well for many years by substituting a structure that will lead to the concentration of the banking resources geared primarily to handle large corporate customers.

To argue that the present system has served Kansas well, let's compare Kansas with Missouri and Colorado using December 31, 1981 figures again. The per capita farm loan in Kansas for the period was $840. In Missouri, it was only $263; in Colorado, a little lower ye' at $254. The per capita amount of individual, personal, and household loans in that same period for Kansas was $1,228, for Colorado, $1,211, and for Missouri only $1,046.

The strong inference is that the individual—urban worker or rural farmer—was not as well served in our neighboring multibank states as in Kansas. Why? Because independent unit banks must serve their communities well every day. If they fail to serve their local communities satisfactorily, the depositors have many other area independent banks which are anxious to handle their business. Local citizens have a powerful tool in requiring local banks to first serve the local community. The local banker cannot seek shelter in the corporate hierarchy located somewhere else. A local independent bank's prosperity is directly dependent upon its own community's prosperity. This is a built-in check and balance provided by the unit system that does not exist in multibanking.

I would argue also that the present unit bank system can serve the needs of large corporate borrowers through the use of the correspondent system. The local community bank, when it has a loan request larger than its loan limit will permit, can place loan participations upstream with its large city correspondent. By the same token, the larger bank in a metropolitan center, when it finds that its loan-to-deposit ratio has grown larger than it desires,

Under the proposed 11 percent size limitation, we would have 10 multibank holding boards—located most probably in Wichita, Kansas City, and Topeka—making all the banking policy decisions for the state of Kansas.

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can place loans downstream to parts of the state which do not have a high loan demand. In this manner, a fluid shifting of funds between various parts of the state can be accomplished. Like the unit bank structure, the correspondent system assures a local community bank that its correspondent banker will be responsible to the local bank's needs. Or if the correspondent fails to provide that kind of service, the local community banker has a great number of other banks to which he can turn for correspondent help. Again, this fluidity does not occur in a multibank holding situation because the subsidiary banks do their primary business with the lead bank.

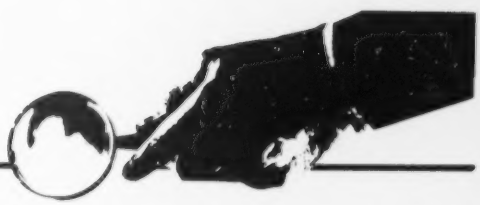
Another scenario that promises an unresponsive concentration of the state's banking resources is the movement to change the banking laws to permit multibank holding companies to acquire banks across state lines. In fact, several states have either passed or are considering reciprocal bills which would allow banks in neighboring states to cross their state lines. Under the present Kansas banking structure, the relative size of our banks makes them less attractive to purchase by banks from the larger metropolitan areas of the U.S. However, if Kansas permits multibank holding companies (and if the laws are changed to permit interstate banking), our holding companies will become a plum for some giant multibank holding company in another state.

In conclusion, I will reiterate that other independent bankers and I favor increased economic activity in our state. As part of this increased economic activity, we also favor efforts to attract high-tech industry. And last but not least, we're totally committed to competition. I do not feel that multibank holding company legislation will favorably affect any of these three points. The individual consumer, the individual farmer, and the individual businessman and woman in communities in this state will not be well served by a system which sorely limits the choice the customer now has as to where his/her banking business is done. Moreover, if we permit multibank holding companies, the number of choices which the corporate customer has, regardless of size or type, will shrink, and, yet, the new system, as I said, will not necessarily provide any larger banks, any larger capital, or any larger loan limits. The unit banking system now in place in Kansas is a proven system which has allowed the state to grow and prosper. Because of its local ownership and controls, the independent unit banking structure is the most responsive and flexible banking system yet devised. Kansas has prospered for over 100 years with the present system. The system has demonstrated time and time again its ability to respond to changing economic conditions and will do so in the future. There's absolutely no demonstrated need for a change.

Noel Estep

Economic Conditions

The National Review



The State of the Economy

Following the anemic growth in GNP of 1.6 percent in the third quarter of 1984, fourth-quarter growth of 3.9 percent (*since revised to 4.9 percent—ed's note*) laid to rest the fears of some analysts that the economy was drifting downward. Real GNP for the year was up 6.8 percent, the best post-World War II peacetime year. Beginning in 1983:I, growth in GNP has now lasted eight quarters. The average post-war recovery in peacetime is almost three years, and numerous signs in the economy indicate that the current recovery will achieve this average. We anticipate that the growth will remain strong, with the first quarter exceeding 4.0 percent, perhaps even reaching 5.0 percent. Furthermore, our expectation is that the growth rate in the second quarter will remain in this range and that the year's second half should continue to experience positive growth.

In tandem with this forecast of GNP, we also expect to see the unemployment rate, which was 7.4 percent in December, approaching 6.5 percent by mid-1985. This forecast presumes that an accommodating monetary policy will be followed by the Federal Reserve.

The General Outlook

The economic activity that occurred in the fourth quarter was positive—more positive even than is reflected by the 3.9 percent growth rate in GNP. In this regard, it is important to note that, in the late summer and early fall, retail spending unexpectedly fell, a decline that led to an unanticipated increase in business inventories. This inventory buildup in the third quarter, while propping up GNP growth for the period, left the economy in the somewhat precarious position of having a level of inventories too high relative to sales. As a result, businesses needed to reduce the rate of inventory accumulation, an activity that consequently would reduce the rate of growth in GNP. The rate of inventory accumulation was, in fact, reduced in the fourth quarter: the change in business inventories fell from 30.6 billion in the third quarter to 14.2 billion in the year's last three months. The following calculation demonstrates the magnitude of that decline: had the change in business inventories remained at 30.6 in the fourth quarter, the rate of growth in GNP would have been 8.1 percent rather than the 3.9 percent. And yet, the economy was strong enough in the fourth quarter to allow inventories to be brought back in line with sales with GNP still growing, as noted, at the respectable rate of 3.9 percent. The fact that the unexpected inventories accumulation in the fall was corrected by the end of the year sets the stage for our optimism. Specifically, we see the increases in expenditures carrying over into the beginning of 1985 and being met by an increase in production. We expect that the change in business inventories in 1985:I will exceed the 14.2 billion of 1984:IV.

If there is cause for a more cautious outlook, it derives from further analysis of the GNP data. Recall that the method of determining GNP—the amount that is produced—is to measure final sales, subtract inventory changes, and than add net exports. Thus, given the level of final sales minus changes in inventory, an increase in net exports results in an increase in GNP. In the fourth quarter, there was a substantial increase in net exports. Net exports rose from -$27.0 billion in the third quarter to -$15.2 billion in the fourth quarter. This increase added around 3.0 percent to the growth rate of GNP. In fact, the merchandise trade deficit of December was the lowest of the year, the result of a decrease in imports and an increase in exports. However, it will almost certainly be the case that the decline in imports will prove to be temporary—the effect of the third-quarter decline in final sales. Our expectation is that net exports will begin increasing in 1985:I. Indeed, imports should climb to, and surpass, their previous level because of the continued strength of the dollar.

The conclusion here is that the demand for goods and services in the first half of 1985 will mostly be satisfied by production. To summarize, the unanticipated inventory buildup that occurred in the third quarter was dissipated by the strength of expenditures in the fourth quarter. Nonetheless, we will probably see an increase in net exports, perhaps as early as the first quarter of 1985 from the fourth-quarter level in 1984. And, certainly, the level of net exports will be greater in 1985 than in 1984. Therefore, expenditures will not be satisfied by inventory corrections as occurred in the fourth quarter but will, to some extent, result in increased imports.

The Outlook for Specific Indicators

The largest component of expenditures by far is personal consumption, and our expectation is that personal consumption will be strong in 1985. One reason for thinking so is that retail sales rose 0.7 percent in January, an indication that personal consumption has recovered from the late summer relapse. Furthermore, it is likely that personal consumption will expand because of the increases in personal income that have occurred recently. For example, personal income rose 0.4 percent October, 0.6 percent in November, and 0.5 percent in December. These gains imply an annual increase of over 6.0 percent, an increased amount of money in the pockets of consumers that bodes well for consumption expenditures.

The majority of personal income represents wages and salaries, a function of employment which has been on the increase since late autumn despite a rising unemployment rate (7.1 percent in November, 7.2 percent in December, and 7.4 percent in January). According to the *Household Survey*, over 300,000 people gained employment in December, and 118,000 gained jobs in January. The unemployment rate grew, however, because, as reported by the *Survey*, 800,00 people joined the labor force in this period. The figure of 800,000 is very large, certainly much larger than sustainable increases in the labor force as indicated by demographic data. According to *Payroll Survey* data, 348,000 jobs were created in January. For these reasons, the unemployment rate of 7.4 percent in January was probably a statistical aberration, and the coming months should witness a falling unemployment rate. More specifically, we anticipate a rate of 7.0 percent in late first quarter or early second quarter. Decreases below the 7.0 percent figure will occur, given our GNP forecast, by the end of the second quarter.

Even though the current unemployment rate of 7.4 percent is well below the 10.7 percent for November 1982, it is high by historical standards. Table 1 shows that the unemploy-

Table 1
Peak Monthly Unemployment Rates Associated with a Recession

Year/Month	Rate
1954:09	6.1
1958:07	7.5
1961:05	7.1
1970:12	6.1
1975:05	9.0
1980:07	7.8
1982:11 and 12	10.7

ment rate of 7.4 percent is higher than the peak recessionary unemployment rates of 6.1 percent in September 1954, 7.1 percent in May 1961, and 6.1 percent in December 1970. Unfortunately, we do not anticipate the unemployment rate dipping very far into the 6.0 percent area.

Federal Reserve Policy and the Outlook

As of late February, there has been some speculation that the Fed has tightened its credit reins. Evidence supporting this supposition is that the federal funds rate rose to 8.75 in the beginning of February from around 8.20 in late January. Further, it is supposed that, because the levels of M1 and M2 are above their targets, credit tightening must take place. Our view, however, is that, although there may be some short-term corrections in the supply of money, the Fed will accommodate growth with ample credit.

One reason we think that the Fed will be lenient with credit is the strength of the dollar which has recently been pushing historical records. Any reduction in the supply of money, with demand constant, will, or course, result in a higher price for money (through an increase in interest rates). From the statements that Volcker and others close to the Chairman have made, it is apparent that they consider a strong dollar disruptive to our economy. Although Volcker correctly blames the trade deficit on the budget deficit, it is doubtful that he would allow monetary policy to exacerbate the problem.

The second reason for our expectation of an accommodating monetary policy is simply that there are no signs of an increasing inflation rate. The CPI rose by only 4.0 percent last year, a rate which has led some analysts to believe that the fight against inflation has been won. Although the schizophrenic behavior of the CPI continued in that the price of services kept rising faster than the price of goods, we do not expect the rate of inflation to increase because of the strong dollar holding down prices. Because the dollar's strength and its subsequent repressive effect on prices are the result of the size of the deficit and because it does not appear that a significant reduction of the deficit will occur, we do not believe that the dollar's value will decline significantly.

Capacity Utilization and the Outlook

Another cause for not anticipating an increase in the rate of inflation (which also gives rise to our optimistic GNP forecast) is that capacity utilization (81.9 percent in January) is relatively low for this stage in an expansionary period. This low rate implies plenty of room for increased production before bottlenecks arise and, hence, cause prices to rise. There appear to be two reasons for this current rate: 1) the dollar's high value and 2) the effects of President Reagan's 1981 tax cut. The dollar's high value simply means that much production that normally would have occurred at home has occurred abroad. The second reason may be more significant.

One abnormality of this recovery has been the rate of business-fixed investment in plants and machinery. Gross private fixed investment has been increasing at nearly twice the average rate of the previous five recoveries and, furthermore, has been occurring when capacity-utilization rates have been below normal for an expansion. The obvious implication here is that some rules have been changed.

The change in the rules that brought forth this investment growth was the Economic Recovery Act of 1981. The Accelerated Cost Recovery System (ACRS) allowed for a much faster write-off period. This write-off provided a powerful incentive for investment and is one reason for the powerful recovery that we have seen. As well, it is another reason for our being optimistic about a sustained recovery.

This argument naturally leads to the question of the proposed Treasury Tax Bill which does away with ACRS. The abolishment of ACRS will, without a doubt, send a shock wave through the economy. (We are only commenting on a small portion of a big bill which has, we think, many positive aspects.) If ACRS were abolished, we would anticipate a period of adjustment— specifically, a time of very low investment—which would certainly reduce the rate of GNP growth.

Conclusion

Consumers have money, inventories have been brought in line, there is ample capacity in the economy, and the Fed is not going to spoil the party—GNP will be strong in the first half of 1985, with expected growth rates of 4.0 to 5.0 percent. On the strength of this growth, the unemployment rate will decline, approaching 6.5 by mid-year. Given the accommodating Fed policy, interest rates will remain close to their current levels in the short term. A caveat concerns imports: if the rate of the growth of the dollar's value does not slow down, net exports may fall precipitously, thereby reducing the growth in GNP.

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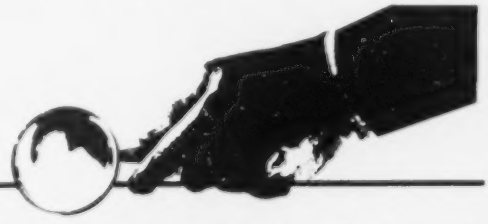

The Kansas Economy

A Review of the Past Year, a Forecast for the New

1984: A Pretty Good Year, Not-so-Good Guesses

Not only do bright promises come with the New Year but also new Kansas economic forecasts. Yet, before committing to print this year's short-term outlook, it is helpful to review Kansas' economic performance in 1984 in light of the *Kansas Business Review* (*KBR*) 1984 forecast and then try to explain where and how that forecast went wrong.

In 1984, Kansas nonfarm wage and salary employment hit a new high of 960.5 thousand. The number of employed increased by 39,000, a rate of increase from 1983 to 1984 of 4.23 percent. In other words, Kansas employment was growing at nearly the same rate as U.S. employment. More impressive, however, has been the growth in personal income in Kansas. Although only third-quarter 1984

data are now available, personal income in Kansas in the first three quarters of 1984 was increasing by 11.6 percent from 1983, a growth rate nearly three percentage points higher than the national growth rate for 1984.

Last year, however, *KBR* predicted only moderate growth for Kansas in 1984: "Something in the 3.0 to 4.0 percent growth range for personal income which translates into a 1.5 to 2.0 percent increase in nonfarm wage and salary employment."[1] An answer to the question of how last year's forecast missed this unanticipated growth begins to come clear upon noting that the *KBR* outlook for 1984 centered on five points:

(1) Moderate growth in the auto industry.

(2) Moderate growth in the aircraft industry.

(3) Improvement in the construction industry.

(4) Moderate improvement in the agricultural sector.

(5) Continued steady growth in the rest of the nonfarm economy.

Points (1), (2), and (3) proved to be correct. Transportation equipment employment, which contains primarily automobile production and aircraft and aircraft parts production, grew about 10 percent from 1983 to 1984 but still remained nearly 9,000 jobs short of its peak in 1979. Employment in the construction industry grew a little over 6.0 percent from 1983 to 1984 but was still more than 7,500 jobs below its 1979 peak. As it turned out, the remaining nonfarm sectors of the Kansas economy picked up their growth rates a bit more than anticipated, but the real surprise came from farm income.

1984 was a good year for agriculture nationally, with farm income estimated to have almost doubled from 1983 to 1984. Kansas farm income is currently available for only the first three quarters of 1984, yet, judging from that data, it was 117.4 percent higher in 1984 than in 1983. This growth represents an increase far greater than the moderate improvement forecast in this journal.

The Farm Situation: "Whose Fault?"

This dramatic improvement in 1984 farm income does raise one interesting question that is worthy of a digression at this point: why are many farmers defaulting on loans and asking for aid from the federal government? One answer is suggested by the following statement in *Agricultural Outlook*, a U.S. Department of Agriculture publication: "Over 14 percent of all farm assets are owned by farmers with debt/asset ratios over 40 percent."[2] The high debt/asset ratio coupled with the high real interest rates since Reagan came into office have created for these highly leveraged farmers a nearly impossible financial situation. Many of these farmers got into this situation by borrowing heavily in the 1970s when farm land prices soared. The high real interest rates, therefore, have hurt the farmers from two directions: they lowered the value of their farmland and, thus, lowered their asset base while raising their relative payments.

The reasons given for a federal bail out of these farmers generally fall into two categories: emotional and ethical. As the term suggests, the emotive arguments often refer to the traditional and conservative values associated with farming and, particularly, the threat posed to them by widespread foreclosures, yet one other statement from *Agricultural Outlook* implies that such references may not be exactly relevant in many cases: "More of these highly leveraged farmers fall into the top sales classes."[3] That is, the *Outlook* claims that only a minority of these highly leveraged farmers fall into that class for whom the conventional rhetoric of agriculture is appropriate. The moral arguments are, perhaps, more to the point in seeking to assign responsibility to the proper quarter. This approach argues that farmers are not responsible for the extraodinarily high real interest rates; the federal government is. Because, then, the federal government put these farmers in this situation, the federal government should help get them out. Yet one fundamental reservation to this argument has arisen in some quarters: did the federal government, in fact, put the farmers in this situation? Some analysts say that the highly leveraged farmers speculated on continuing inflation and lost (while noting as well that not all farmers are in the highly leveraged situation, 14 percent are). It is in this context of doubt that Budget Director David Stockman made his now infamous statement. Put bluntly, as Stockman did, one description of these highly leveraged farmers' fate is that they gambled and lost. If the federal government makes good on the farmers' "gambling" debts, should it make good on everyone's is the question many hardline Administration officials and supporters are asking.[4]

The Relevant National Outlook

The *KBR* staff economic forecast for Kansas 1985 again is centered on the same five points listed earlier. However, before proceeding to a point-by-point analysis, the relationship between the Kansas economy and the national and international economies makes it necessary to sketch their outlook as it pertains directly to Kansas. This brief analysis will focus primarily on the qualitative relationships between national economic policy along with its national and international economic implications *and* the resulting influences on the Kansas economy. Currently, the two most important variables for Kansans are interest rates and the value of the dollar which are quite obviously both interrelated and related to the budget deficit.

The machinery for another year of enormous peacetime deficit spending is in place. The deficit reduction measures now being discussed are for FY 86 which begins in October 1985, and, if Congress runs true to its recent form, the federal government will operate on a continuing budgetary resolution for a month or so into FY 86. That is to say, fiscal policy in 1985 will be very stimulative as it was in 1984. However, this large deficit also increases competition for capital. In turn, the increased competition results in a higher interest rate. Foreigners, who wish to take advantage of the high interest rates, need dollars to do so. This desire for dollars rather than other currencies results in a high price of dollars relative to the other currencies; thus, there is a direct link between the deficits and the high interest rates *and* between the high interest rates and the strong dollar.[5]

Since *KBR* analysts do not anticipate either a significant reduction in the deficit or any dramatic change in the Fed's behavior, the fundamental relationships should continue through this year. This means continued growth due to the stimulative fiscal policy, high interest rates, and a strong dollar.

The 1985 Forecast

Integrating this sketch of the relevant national policies with the five-point breakdown of the Kansas economy mentioned above leads to this economic forecast for 1985.

(1) Continued economic growth promises that the auto industry should have a good year. Renewal of the import quotas would add luster that promise.

(2) High interest rates and the strong dollar will hurt sales of civilian aircraft, but the continued expansion of the Defense Department budget should offset problems with civilian aircraft.

(3) High interest rates will continue to hurt construction but will only dampen growth, not prevent it.

(4) Wheat is the only crop whose international output is not expected to rise significantly this year. Another disappointing harvest in the Soviet Union should help U.S. farmers. Beef prices are expected to increase this year. The only negative note is that the major international competitors with Kansas in the wheat market, Canada and Argentina, have experienced a decline in the value of their currencies

relative to the dollar. The strong dollar, therefore, should have some negative impact.

(5) The rest of the Kansas economy will grow at about the same rate as the U.S. economy during the anticipated period of expansion in 1985.

The cumulative effect of the forecasted growth in these five sectors should be a good year for Kansas in 1985, yet probably not as good as 1984 for one reason: there is little cause to expect that farm income will more than double again this year. In terms of numbers, Kansas nonfarm wage and salary employment is forecast to increase 2.5 to 3.5 precent and personal income to increase 5.0 to 7.0 percent in 1985.

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Footnotes

[1] Robert Glass, "The Kansas Economy: Outlook," *Kansas Business Review*, Vol. 7, No. 2, Winter 1984, p. 20.

[2] *Agricultural Outlook*, Department of Agriculture, December 1984, p. 1.

[3] *Agricultural Outlook*, p. 2.

[4] Rent-seeking activities or more generally DUP activities (directly unproductive profit-seeking activities) have recently become a serious field of economic research. See David C. Colender (ed), *Neoclassical Political Economy: The Analysis of Rent-Seeking and DUP Activities*, Ballinger Publishing Company, 1984.

[5] For a fuller explanation of the relationship between the deficit and high interest rates, see Gary R. Albrecht, "The National Review: Interest Rates and the Deficit," *Kansas Business Review*, Vol. 8, No. 1, Fall 1984, p. 25.

Economic Indicators

TABLE ONE: ECONOMIC INDICATORS

Comparison Indicators	Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly,at annual rates, SA					
Kansas - Mil. $ 3rd	33759	33102	29920	1.98	12.83
United States - Bil.72 $ 4th	1390.3	1375.5	1313.2	1.08	5.88
B. Employment - Quarterly, NSA					
Kansas - Thou. 4th	1141.7	1151.2	1146.4	-0.83	-0.42
United States - Mil. 4th	105.9	105.2	102.3	0.70	3.55
C Unemployment Rate - Quarterly, NSA					
Kansas - % 4th	5.3	4.8	4.2		
United States - % 4th	7.2	7.5	8.5		
D. Retail Sales - Monthly, at annual rates, NSA					
Kansas - Mil. $ .....DEC	983.3	1353.3	1256.7	-27.34	-21.75
United States - Bil. $ .....DEC	109.9	110.4	102.4	-0.45	7.32
E. Consumer Price Index, CPI-U, All items - Monthly, SA					
Kansas City* - 1967 = 100 .....DEC	313.7	314.1	301.3	-0.13	4.12
United States - 1967 = 100 .....DEC	315.9	315.3	303.9	0.19	3.95
Kansas Indicators					
F. Construction Activity - Quarterly, NSA					
Value of Building Permits** - Tho. $ 3rd	NA	NA	NA	NA	NA
G. New Incorporations - Quarterly, NSA					
For Profit - Number 3rd	389.0	382.3	435.0	1.74	-10.57
H. Crude Oil Production - Quarterly					
Thousand BBLS 3rd	NA	NA	NA	NA	NA
I. Tax Revenue, Quarterly, NSA					
General Fund Tax Revenue - Mil. $ 4th	123.9	118.6	112.7	4.44	9.94
J. Operating Expenditures, Quarterly, NSA					
General Fund Operating Expenditures - Mil. $ 4th	134.6	79.9	118.3	68.53	13.81

NOTES: *The Kansas City CPI-U is published bimonthly starting with February.
**Includes only the activity in the state's twelve largest cities (by population).
National employment and unemployment rate figures are based on the Current Population Survey (household survey).
State figures are based on the Current Employment Statistics Survey (establishment survey).
NSA-Not Seasonally Adjusted.
SA-Seasonally Adjusted.

SOURCE: BEA, BLS, Ks. Dept. of Human Resources, Ks. Secretary of State, Ks. Dept. of Administration, Ks. Dept. of Revenue.

TABLE TWO: NATIONAL INDICATORS
(Seasonally Adjusted)

General Indicators		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Income Measures - Quarterly, at annual rates						
Gross National Product - Bil. 72$	4th	1664.8	1645.2	1572.7	1.19	5.86
Disposable Personal Income - Bil. 72$	4th	1187.7	1176.5	1124.3	0.95	5.64
Personal Consumption - Bil. 72$	4th	1075.4	1065.9	1032.4	0.89	4.17
Gross Private Investment - Bil. 72$	4th	288.8	299.2	249.5	-3.48	15.75
Net Export of Goods and Services - Bil. 72$	4th	-10.2	-27	2.0	-62.22	-610.00
Government Purchases - Bil. 72$	4th	310.8	306.1	288.8	1.54	7.62
Personal Savings - Bil. 72$	4th	166.2	164.7	128.7	0.91	29.14
Savings Rate - %	4th	6.3	6.3	5.3	0.00	18.87
B. Labor Force - Monthly						
Civilian Labor Force - Mil.	DEC	114.5	114.0	112	0.44	2.23
Employed - Mil.	DEC	106.3	105.9	102.7	0.38	3.51
Unemployed - Mil.	DEC	8.2	8.2	9.4	0.00	-12.77
Unemployment Rates - percent						
All -	DEC	7.2	7.1	8.2		
Women -	DEC	7.2	7.3	8.1		
Men -	DEC	6.3	6.3	7.8		
Teens -	DEC	18.8	17.8	19.9		
Blacks -	DEC	15.0	15.0	17.3		
Whites -	DEC	6.2	6.1	7.1		
C. General Business - Quarterly						
Industrial Production - 1967 = 100	4th	165.1	165.6	155.5	-0.32	6.17
Mfg. and Trade Sales - Bil. 72$	4th	177.7	176.4	168.9	0.69	5.20
Mfg. and Trade Inventories - Bil. 72$	4th	277.7	274.2	258.1	1.27	7.56
New Orders, Durable Goods - Bil. 72$	4th	41.3	41.4	40.6	-0.16	1.81
Capacity Utilization, Mfg. %	4th	82.6	81.8	78.9		
New Housing Starts, Private - Tho.	4th	1558.7	1663.7	1698.7	-6.31	-8.24
D. Prices - Monthly						
Consumer Prices - 1967 = 1009						
CPI-W, All Items	DEC	312.2	311.9	301.6	0.10	3.51
CPI-U, All Items	DEC	315.9	315.3	303.9	0.19	3.95
Food	DEC	306.6	305.6	295.5	0.33	3.76
Housing	DEC	341.9	341.4	328.1	0.15	4.21
Apparel	DEC	202.4	203.0	198.1	-0.30	2.17
Transportation	DEC	315.5	315.2	306.1	0.10	3.07
Medical	DEC	388.2	387.1	366.0	0.28	6.07
Producer Prices - 1967 = 100 (NSA)						
All Commodities	DEC	314.3	314.7	309.4	-0.13	1.58
Industrial Commodities	DEC	288.9	289.1	282.9	-0.07	2.12
Crude Materials	DEC	329.3	329.6	333.5	-0.09	-1.26
Capital Equipment	DEC	295.8	295.7	289.7	0.03	2.11
Agricultural Prices - 1977 = 100						
Prices Received	DEC	135.0	137.0	140.0	-1.46	-3.57
Prices Paid	DEC	164.0	164.0	162.0	0.00	1.23
Parity Ratio - Number	DEC	82.0	84.0	86.0	-2.38	-2.33
E. Monetary and Credit Aggregates - Quarterly						
(Annual rates of change, seasonally adjusted in percent.)						
Total Reserves -	3rd	6.8	8.5	0.8	-20.00	750.00
M1	3rd	4.6	6.1	4.8	-24.59	-4.17
Commercial Banks:						
Savings -	3rd	-5.6	-6.4	-6.4	-12.50	-12.50
Small Denomination Time -	3rd	18.4	8.6	19.3	113.95	-4.66
Large Denomination Time -	3rd	21.2	24.2	-0.2	-12.40	*********
Thrift Institutions:						
Savings -	3rd	-5.4	0.5	-4.4	-1180.00	22.73
Large Denomination Time -	3rd	35.1	46.4	58.1	-24.35	-39.59
Debt Components:						
Federal -	3rd	14.7	12.7	14.3	15.75	2.80
Nonfederal -	3rd	12.4	12.9	9.8	-3.88	26.53
Interest Rates - Monthly						
Prime Rate - %	DEC	11.06	11.77	11.00	-6.03	0.55
Discount Rate - %	DEC	8.37	8.83	8.5	-5.21	-1.53

SOURCES: BEA, BLS, Survey of Current Business, Federal Reserve Bulletin.

Note:********* is entered when a number is greater than 9999.9.

TABLE THREE: EMPLOYMENT IN KANSAS

Category		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. General Indicators - Quarterly						
Civilian Labor Force - Tho.	4th	1205.7	1209.8	1197.4	-0.34	0.69
Employed - Tho.	4th	1141.7	1151.2	1146.4	-0.83	-0.42
Farm Employment - Tho.	4th	52.2	68.8	53.5	-24.04	-2.31
Unemployed Tho.	4th	64.1	58.7	51.0	9.26	25.69
Initial Claims for Unemployment Insurance - Tho.	4th	14.9	11.5	15.1	29.79	-1.27
Average Work Week, Mfg. - Hrs.	4th	40.2	39.8	39.6	1.00	1.60
B. Industry Employment - Quarterly, in thousands						
All Industries -	4th	953.0	933.3	929.4	2.11	2.54
Manufacturing -	4th	178.6	178.1	169.9	0.28	5.14
Durable Goods -	4th	108.1	107.0	102.2	1.06	5.77
Fabricated Metal Production -	4th	11.9	11.9	10.9	0.28	9.17
Machinery (incl. Elec.) -	4th	26.9	27.9	27.1	-3.59	-0.74
Transport. Equip. -	4th	49.5	47.9	44.5	3.34	11.23
Aircraft and Parts -	4th	38.5	36.9	33.8	4.25	13.69
Nondurable Goods -	4th	70.5	70.4	67.6	0.09	4.19
Food and Kindred Prod. -	4th	25.1	24.3	24.2	3.01	3.58
Meat Products -	4th	11.5	11.2	10.7	2.37	7.81
Printing and Publishing -	4th	17.6	18.0	16.6	-1.86	6.44
Petroleum and Coal -	4th	4.1	4.3	4.1	-3.88	0.81
Mining -	4th	17.8	17.8	17.5	-0.19	1.33
Oil and Gas Extraction -	4th	16.1	16.0	15.8	0.21	1.47
Contract Construction -	4th	41.5	43.6	40.3	-4.67	3.15
Trans. and Public Utilities -	4th	64.4	63.7	63.0	0.99	2.17
Wholesale Trade -	4th	65.7	66.3	64.6	-0.90	1.70
Retail Trade -	4th	166.4	161.6	163.1	2.97	2.00
Finance, Ins., and Real Estate -	4th	61.1	61.2	60.1	-0.16	1.61
Services	4th	175.6	175.5	173.8	0.09	1.07
Federal Government -	4th	26.6	26.9	25.0	-1.12	6.54
State and Local Government -	4th	166.6	150.9	163.3	10.36	2.00

SOURCES: BLS, Ks. Dept. of Human Resources.

TABLE FOUR: INCOME IN KANSAS
(Seasonally Adjusted, at Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly						
Total - Mil. $	3rd	33759	33102	29920	1.98	12.83
Nonfarm Income - Mil. $	3rd	32051	31437	29139	1.95	9.99
Farm Income - Mil. $	3rd	1708	1666	1243	2.52	37.41
Average Weekly Earnings, Mfg.* - $	4th	380	375	377	1.31	0.98
B. Earnings by Industry - Quarterly, in Millions						
Nonfarm -	3rd	21147	20834	19222	1.50	10.01
Farm -	3rd	1708	1666	1243	2.52	37.41
Manufacturing -	3rd	4716	4655	4203	1.31	12.21
Durable Goods -	3rd	2973	2969	2633	0.13	12.91
Nondurable Goods -	3rd	1743	1686	1570	3.38	11.02
Mining -	3rd	619	576	508	7.47	21.85
Contract Construction -	3rd	1228	1188	1114	3.37	10.23
Trans. and Public Utilities -	3rd	2065	2034	1862	1.52	10.90
Wholesale Trade -	3rd	1618	1597	1486	1.31	8.88
Retail Trade -	3rd	1980	1993	1904	-0.65	3.99
Finance, Ins., and Real Estate -	3rd	1209	1200	1110	0.75	8.92
Services -	3rd	3912	3857	3576	1.43	9.40
Federal Government -	3rd	661	666	602	-0.75	9.80
State and Local Government -	3rd	2537	2470	2252	2.71	12.66

NOTE: *Not seasonally adjusted.

SOURCES: BEA, Ks. Dept. of Human Resources.

TABLE FIVE: KANSAS RETAIL SALES SUBJECT TO SALES TAX
(At Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Business Classification - Quarterly, in Millions						
Apparel -	4th	34.5	33.1	34.8	4.20	-0.89
Automotive -	4th	230.2	271.7	222.5	-15.25	3.48
Food -	4th	304.3	315.8	292.8	-3.65	3.92
Furniture -	4th	63.2	64.2	52.6	-1.43	20.22
General Merchandise -	4th	192.5	168.0	175.6	14.59	9.64
Lumber and Building Materials -	4th	103.2	117.7	101.7	-12.37	1.42
Prof. and Pers. Service -	4th	67.8	69.5	63.5	-2.43	6.81
Public Utilities -	4th	59.2	62.7	68.9	-5.59	-14.13
Unclassified -	4th	107.2	111.9	105.7	-4.23	1.37
Farm and Garden Products -	4th	1.0	1.3	1.1	-23.62	-9.98
Manufacturing and Trading -	4th	90.8	94.5	87.3	-3.99	3.97
Miscellaneous -	4th	4.4	4.2	4.6	4.72	-4.24
Total -	4th	1258.3	1314.6	1211.1	-4.29	3.89

NOTE: Retail sales figures are based on sales tax collections. Actual and reported retail sales may vary.

SOURCES: Ks. Dept. of Revenue.

TABLE SIX: EMPLOYMENT AND SALES FOR SMSAs AND COUNTIES

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Wichita SMSA - Quarterly						
Civilian Labor Force - Tho.	4th	231.0	231.2	221.3	-0.10	4.37
Employed - Tho.	4th	217.3	218.3	209.2	-0.43	3.87
Unemployed - Tho.	4th	13.7	12.9	12.1	5.67	13.26
Rate - %	4th	5.9	5.6	5.5		
Retail Sales - Mil. $	4th	251.4	273.7	243.3	-8.16	3.33
B. Kansas Portion of Kansas City SMSA - Quarterly						
Civilian Labor Force - Tho.	4th	230.3	230.6	218.2	-0.12	5.55
Employed - Tho.	4th	219.5	220.0	208.7	-0.21	5.21
Unemployed - Tho.	4th	10.7	10.6	9.6	1.58	12.20
Rate - %	4th	4.7	4.6	4.4		
Retail Sales - Mil. $	4th	240.0	247.2	226.4	-2.92	6.00
C. Topeka SMSA - Quarterly						
Civilian Labor Force - Tho.	4th	97.0	97.0	94.5	-0.03	2.68
Employed - Tho.	4th	91.1	91.7	88.8	-0.69	2.59
Unemployed - Tho.	4th	5.9	5.3	5.7	11.32	4.12
Rate - %	4th	6.1	5.5	6.0		
Retail Sales - Mil. $	4th	90.3	96.4	83.3	-6.31	8.47
D. Lawrence SMSA - Quarterly						
Civilian Labor Force - Tho.	4th	34.4	33.3	34.0	3.40	1.37
Employed - Tho.	4th	33.0	32.0	32.6	3.13	1.23
Unemployed - Tho.	4th	1.4	1.3	1.4	7.50	2.38
Rate - %	4th	4.2	4.0	4.1		
Retail Sales - Mil. $	4th	29.1	29.5	26.3	-1.50	10.68
E. Riley County--Manhattan Area - Quarterly						
Civilian Labor Force - Tho.	4th	23.1	21.8	23.0	5.96	0.43
Employed - Tho.	4th	22.2	21.0	22.1	5.39	0.30
Unemployed - Tho.	4th	0.9	0.7	0.9	27.27	3.70
Rate - %	4th	4.0	3.4	3.9		
Retail Sales - Mil. $	4th	16.6	17.6	17.0	-5.69	-1.99
F. Reno County--Hutchinson Area - Quarterly						
Civilian Labor Force - Tho.	4th	30.4	30.5	30.3	-0.55	0.33
Employed - Tho.	4th	28.4	28.8	28.4	-1.39	0.00
Unemployed - Tho.	4th	1.9	1.7	1.9	11.54	3.57
Rate - %	4th	6.4	5.7	6.1		
Retail Sales - Mil. $	4th	32.5	33.3	30.8	-2.27	5.62

G. Crawford County--Pittsburg Area - Quarterly						
Civilian Labor Force - Tho.	4th	16.7	16.6	16.6	0.60	0.60
Employed - Tho.	4th	15.5	15.5	15.7	0.00	-1.49
Unemployed - Tho.	4th	1.3	1.2	0.9	11.43	39.29
Rate - %	4th	7.7	7.1	5.7		
Retail Sales - Mil. $	4th	12.4	13.8	12.3	-9.79	0.91
H. Lyon County--Emporia Area - Quarterly						
Civilian Labor Force - Tho.	4th	18.3	18.0	17.8	1.67	2.62
Employed - Tho.	4th	17.4	17.1	17.0	1.56	2.55
Unemployed - Tho.	4th	0.9	0.8	0.8	8.00	8.00
Rate - %	4th	4.9	4.6	4.8		
Retail Sales - Mil. $	4th	16.5	17.4	16.4	-5.49	0.31
I. Saline County--Salina Area - Quarterly						
Civilian Labor Force - Tho.	4th	26.1	26.2	25.5	-0.13	2.62
Employed - Tho.	4th	24.5	24.7	24.1	-0.68	1.66
Unemployed - Tho.	4th	1.6	1.5	1.3	11.36	22.50
Rate - %	4th	6.2	5.6	5.3		
Retail Sales - Mil. $	4th	28.3	32.8	28.1	-13.79	0.61
J. Barton County--Great Bend Area - Quarterly						
Civilian Labor Force - Tho.	4th	19.1	18.9	19.6	1.24	-2.39
Employed - Tho.	4th	18.3	18.1	18.8	0.74	-3.01
Unemployed - Tho.	4th	0.8	0.7	0.7	14.29	9.09
Rate - %	4th	4.2	3.7	3.7		
Retail Sales - Mil. $	4th	25.1	30.0	25.6	-16.38	-1.98
K. Montgomery County--Coffeyville Area - Quarterly						
Civilian Labor Force - Tho.	4th	19.2	19.5	19.4	-1.37	-1.20
Employed - Tho.	4th	17.7	18.4	17.9	-3.80	-0.75
Unemployed - Tho.	4th	1.5	1.4	1.6	2.33	-6.38
Rate - %	4th	7.6	6.9	8.1		
Retail Sales - Mil. $	4th	15.8	17.4	15.8	-9.46	-0.26

SOURCE: Ks. Dept. of Human Resources, Ks. Dept. of Revenue.

TABLE SEVEN: KANSAS AGRICULTURAL INDICATORS

Item		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Prices Received - Monthly						
All Farm Products - 1977 = 100	OCT	156	159	149	-1.89	4.70
All Crops - Do.	OCT	148	151	161	-1.99	-8.07
Wheat - $/Bu.	OCT	3.42	3.45	3.41	-0.87	0.29
Sorghum Grain - $/Cwt.	OCT	4.05	4.17	4.99	-2.88	-18.84
Corn - $/Bu.	OCT	2.73	3.04	3.29	-10.20	-17.02
Soybeans - Do.	OCT	8.27	5.93	8.27	39.46	0.00
All Hay - $/Ton	OCT	77.00	76.00	77.00	1.32	0.00
Livestock and Products - 1977 = 100	OCT	161	164	142	-1.83	13.38
All Beef Cattle - $/Cwt.	OCT	59.90	61.00	51.90	-1.80	15.41
Steers and Heifers - Do.	OCT	61.00	62.20	53.80	-1.93	13.38
Calves - Do.	OCT	60.40	59.10	60.40	2.20	0.00
Hogs - Do.	OCT	39.50	45.50	39.50	-13.19	0.00
Milk - Do.	OCT	14.10	13.80	14.10	2.17	0.00

SOURCE: Ks. Crop and Livestock Reporting Service.

TABLE EIGHT: BANKING ACTIVITY IN KANSAS

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Federal Reserve Member Banks						
Kansas - Quarterly, in Millions						
Total Deposits -	4th	27148.3	25613.7	23309.7	5.99	16.47
Total Checkable -	4th	5094.0	5036.3	4955.0	1.15	2.81
Demand Deposits -	4th	3085.0	3072.7	3103.7	0.40	-0.60
Other Checkable -	4th	2009.0	1963.7	1847.7	2.31	8.73
Small Time and Savings -	4th	18285.3	17045.0	15668.7	7.28	16.70
Large Time -	4th	3769.0	3532.3	2686.7	6.70	40.29
Kansas City, KS - Quarterly, in Millions						
Total Loans -	4th	364.4	351.0	254.2	3.83	43.38
Real Estate -	4th	84.6	78.8	43.0	7.32	96.82
Commercial and Industrial -	4th	117.0	115.5	78.6	1.30	48.81
Consumer -	4th	46.0	45.4	43.9	1.32	4.94
Total Deposits -	4th	442.5	430.0	364.1	2.91	21.51
Demand Deposits -	4th	98.8	95.9	98.9	3.09	-0.07
Time and Savings -	4th	179.0	176.1	145.8	1.68	22.82
Topeka - Quarterly, in Millions						
Total Loans -	4th	374.5	368.2	332.8	1.71	12.53
Real Estate -	4th	87.4	88.7	55.8	-1.43	56.72
Commercial and Industrial -	4th	186.2	182.8	178.2	1.84	4.47
Consumer -	4th	74.2	75.7	53.1	-1.89	39.71
Total Deposits -	4th	500.9	493.6	480.9	1.49	4.15
Demand Deposits -	4th	148.1	148.1	156.6	0.05	-5.39
Time and Savings -	4th	215.4	207.1	207.7	4.04	3.74
Wichita - Quarterly, in Millions						
Total Loans -	4th	1113.4	1094.4	950.9	1.74	17.08
Real Estate -	4th	169.6	174.8	138.4	-2.94	22.54
Commercial and Industrial -	4th	515.0	492.3	446.0	4.60	15.46
Consumer -	4th	294.3	281.8	245.1	4.44	20.09
Total Deposits -	4th	1681.1	1569.6	1429.5	7.10	17.60
Demand Deposits -	4th	449.5	440.4	455.2	2.07	-1.26
Time and Savings -	4th	648.5	625.1	623.0	3.75	4.10
B. All Commercial Banks						
Kansas - Quarterly, in Millions						
Total Loans -	4th	10647.8	10153.8	9422.5	4.87	13.00
Total Deposits -	4th	18035.3	17111.1	15497.9	5.40	16.37
Demand Deposits -	4th	3496.1	3227.2	3320.7	8.33	5.28
Time and Savings -	4th	14539.2	13884.0	12177.1	4.72	19.40
Kansas City, KS - Quarterly, in Millions						
Total Loans -	4th	1839.5	1737.8	1534.9	5.85	19.84
Real Estate -	4th	682.7	635.5	525.7	7.43	29.86
Commercial and Industrial -	4th	584.8	538.9	437.6	8.52	33.64
Consumer -	4th	231.0	224.0	383.3	3.13	-39.73
Total Deposits -	4th	2848.5	2618.3	2324.2	8.79	22.56
Demand Deposits -	4th	543.0	486.3	469.6	11.66	15.63
Time and Savings -	4th	2305.5	2132.1	1854.6	8.13	24.31
Topeka - Quarterly, in Millions						
Total Loans -	4th	689.0	677.2	615.3	1.74	11.98
Real Estate -	4th	168.0	160.2	138.1	4.87	21.65
Commercial and Industrial -	4th	293.9	291.2	242.5	0.93	21.20
Consumer -	4th	100.3	97.8	125.8	2.56	-20.27
Total Deposits -	4th	1098.9	1077.4	996.6	2.00	10.26
Demand Deposits -	4th	276.8	257.2	259.9	7.62	6.50
Time and Savings -	4th	822.1	820.2	736.6	0.23	11.61
Wichita - Quarterly, in Millions						
Total Loans -	4th	1815.4	1688.8	1524.3	7.50	19.10
Real Estate -	4th	407.1	387.7	334.4	5.00	21.74
Commercial and Industrial -	4th	801.6	739.9	654.4	8.34	22.49
Consumer -	4th	335.4	312.3	361.3	7.40	-7.17
Total Deposits -	4th	2978.9	2837.8	2470.8	4.97	20.56
Demand Deposits -	4th	813.8	797.4	769.0	2.06	5.83
Time and Savings -	4th	2165.1	2040.5	1701.8	6.11	27.22

SOURCE: Federal Reserve Bank of Kansas City.
NOTE: Due to a lag in collecting information, "All Commercial Banks" data is from the 4th quarter of 1983.

TABLE NINE: SAVINGS AND LOAN ACTIVITY IN KANSAS

Area	Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Kansas - Quarterly, in Millions					
Total Loans - 4th	11865.8	11841.4	9721.6	0.21	22.06
Net Gain in Savings - 4th	33.0	7.3	25.4	351.60	29.79
B. Kansas City, KS - Quarterly, in Millions					
Total Loans - 4th	1686.4	1531.3	1500.4	10.13	12.40
Net Gain in Savings - 4th	1.0	-4.8	4.8	-120.35	-79.86
C. Topeka - Quarterly, in Millions					
Total Loans - 4th	2457.7	2410.3	2243.2	1.97	9.56
Net Gain in Savings - 4th	9.9	-7.1	1.4	-239.44	607.14
D. Wichita - Quarterly, in Millions					
Total Loans - 4th	2067.6	2047.0	1581.9	1.01	30.71
Net Gain in Savings - 4th	5.7	-1.7	-7.4	-437.25	-177.48

SOURCE: Federal Home Loan Bank of Topeka.

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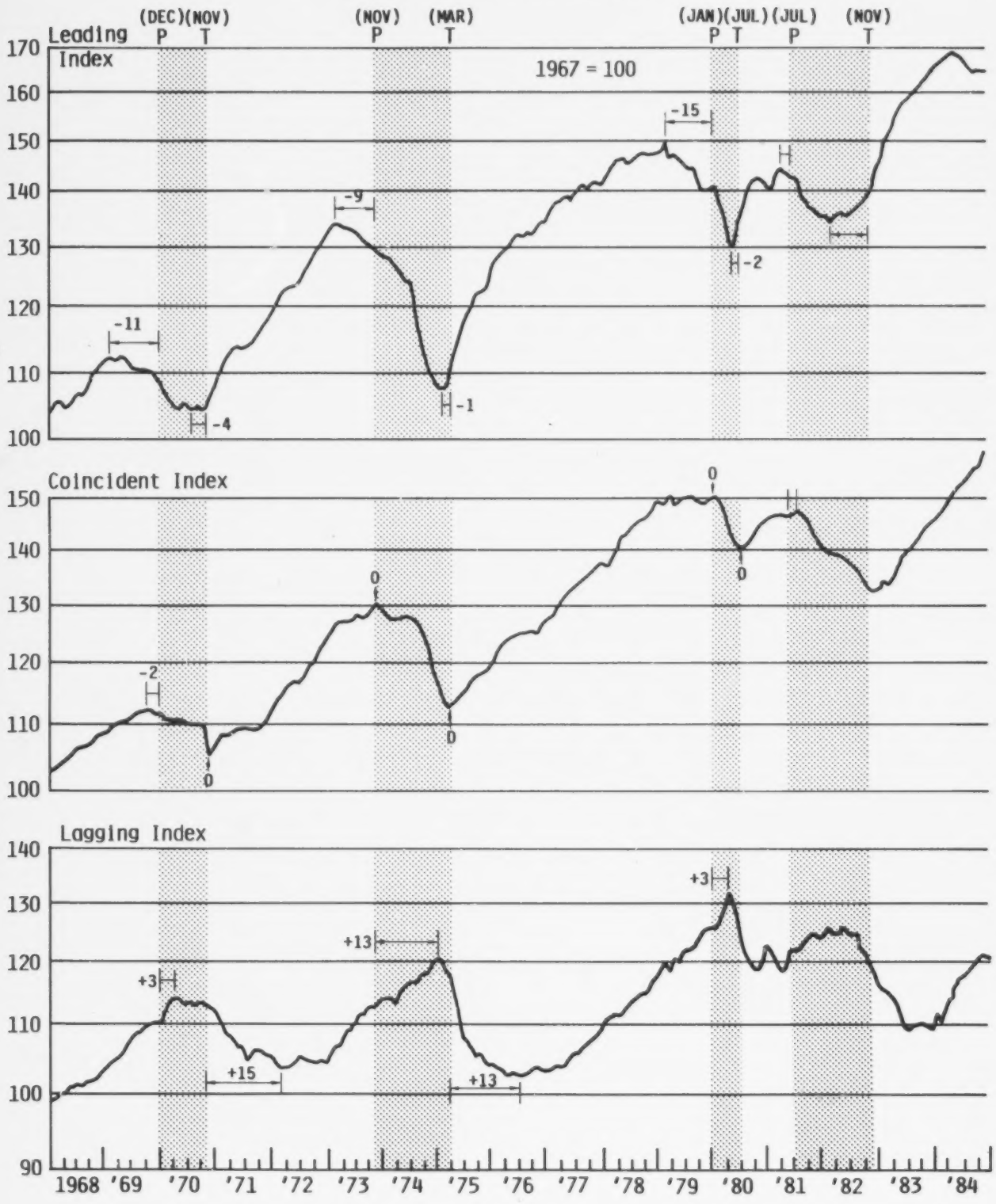

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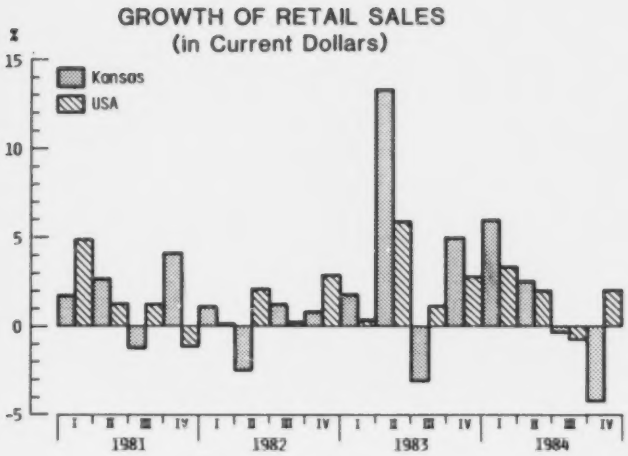

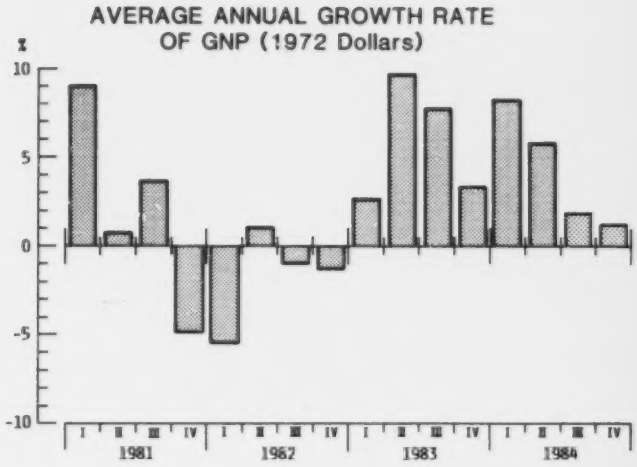

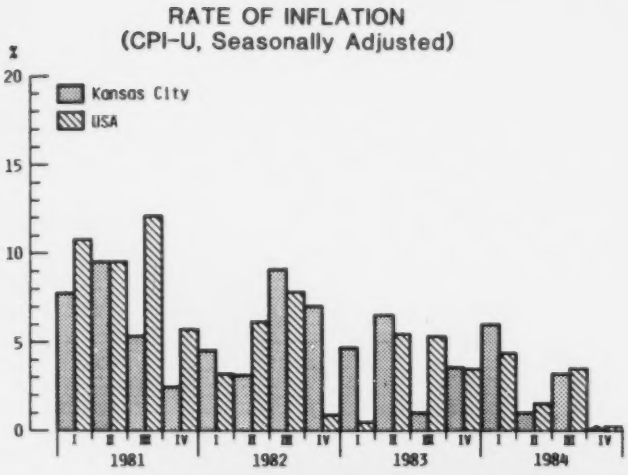

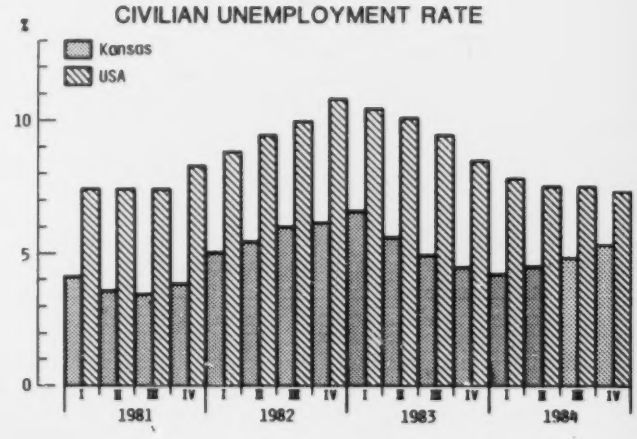

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Spring-Summer 1985

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The Editorial Review Board welcomes original manuscripts, studies, and research notes from academicians and other persons in any area of economics, business, and business administration. All submissions will be reviewed initially by the editorial staff and, when judged appropriate, will be sent to referees who are knowledgeable about the content.

Manuscripts for consideration should be typed, double-spaced, and submitted in triplicate. In general, length should not exceed 3,000 words. Authors are reminded of the combined scholarly/practitioner orientation of Kansas Business Review, which necessitates the contents being in a form readable by that audience. Accordingly, complex statistical material–when necessary for inclusion–should be included in appendix form.

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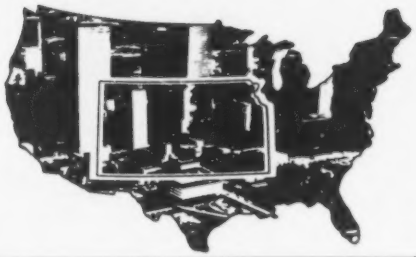
Recent Business Formation in Kansas



Charles E. Krider
Daniel L. Petree

Dr. Krider is a Professor in the University of Kansas School of Business and Director of the Business Research Program at the KU Institute for Economic and Business Research. Daniel Petree is a research assistant for the National Bureau of Economic Research and a student in the Ph.D. program of the KU School of Business.

Introduction

This article examines economic development in Kansas during 1978-1982. Using changes in the number of establishments as a measure of business formation, the main conclusion is that the rate of business formation in Kansas in recent years has been well below that of the U.S., significantly below the rates for the contiguous states of Oklahoma and Colorado, and about the same as Missouri and Nebraska. Virtually all sectors of the state economy have been affected by the state's rate of economic growth.

The data reported here also show that, within Kansas, economic development has been concentrated entirely in urban areas and that there has been an absolute decline in the number of business establishments and in employment outside of the urban centers. Unless this trend is reversed, the rural population will shrink, and the economic structure of much of the state will continue to deteriorate. This study highlights the need, therefore, for a major effort by the state to determine why economic growth has lagged in Kansas and to initiate an economic development plan to make Kansas more competitive in attracting business establishments, especially to its rural areas.

In the subsequent sections of this report, the data source is first described, followed by analyses of business formation in the state by major industries (Section II), geographic region (Section III), and establishment size (Section IV). The article's conclusion offers some reasons for Kansas' mixed-to-poor performance in business formation and suggests some remedial strategies.

I. Data Source

The data used in this study are from the U.S. Bureau of the Census *County Business Patterns* (*CBP*). The *CBP* is an annual census of commercial establishments operating in each county in every state, categorized by primary industry and employment size (an establishment is defined as a single physical location where business is conducted or where service or industrial operations are performed). Since information is gathered on each establishment, *CBP* data avoid the problems attendant to sampling; however, the data is somewhat untimely, and some employment information is suppressed due to confidentiality constraints. The most recent data available are for 1982.

Changes in the number of establishments in Kansas are, at best, a rough indicator of economic development. New establishments can be of nearly any size, and disappearing establishments may, in fact, have been consolidated into new or expanded ones with no loss of employment or economic activity. Nonetheless, changes in establishments across a number of years do provide useful information on a state's economic development, particularly when comparisons are made with other states.

II. Business Formation in Major Industries

Table 1 shows the number of business establishments in Kansas in major industries

Table 1
Number of Business Establishments in Kansas by Major Industries: 1978-82

Industry	1978	1982	Change
Total	54,299	55,476	1,177
Agricultural Services, Forestry, and Fisheries	514	634	120
Mining	1,014	1,359	345
Contract Construction	5,692	4,637	−1,055
Manufacturing	2,989	3,029	40
Transportation and Other Public Utilities	2,943	2,939	−4
Wholesale Trade	5,143	5,497	354
Retail Trade	15,894	15,745	−149
Finance, Insurance, and Real Estate	4,814	4,868	54
Services	13,978	15,677	1,699
Nonclassifiable	1,318	1,091	−227

Source: Calculated from *County Business Patterns*, 1978 and 1982.

The rate of business formation in Kansas in recent years has been well below that of the U.S., significantly below the rates for the contiguous states of Oklahoma and Colorado, and about the same as Missouri and Nebraska.

Table 2
Growth in Major Industries for Kansas and U.S. as Measured by Percentage Change in the Number of Establishments: 1978-82

Industry	KS	US	Difference KS – US
Total	2%	5%	– 3%
Agricultural Services, Forestry, and Fisheries	23	12	11
Mining	34	26	8
Contract Construction	–19	–13	– 6
Manufacturing	1	1	0
Transportation and Other Public Utilities	0	6	– 6
Wholesale Trade	7	8	– 1
Retail Trade	– 1	3	– 4
Finance, Insurance, and Real Estate	1	3	– 2
Services	12	17	– 5
Nonclassifiable	–17	–27	10

Source: Calculated from *County Business Patterns*, 1978 and 1982.

for 1978 and 1982. Over this five-year period, there was a modest increase of 1,177 establishments, or approximately 235 per year. All industry sectors showed growth in the number of establishments except for contract construction, transportation-public utilities, and retail trade. In 1982, over half of all establishments were in retail trade and services. Compared to the nation, Kansas new business formation occurred at a slow rate over the five-year period. By this measure, economic development in Kansas is lagging behind growth in the United States. As shown in Table 2, the number of establishments increased by 5.0 percent in the U.S. but only by 2.0 percent in Kansas. Obviously, firms are finding other states more attractive than Kansas as sites for new establishments. Indeed, the growth rate in establishments in Kansas is less than half that for the United States.

Of the nine major industrial sectors, Kansas outperformed the national average in only two industries—agricultural services and mining. Manufacturing increased by 1.0 percent in both Kansas and the nation. In all remaining industries, Kansas trailed the national average growth rate. In services, a high growth area, Kansas had a 12 percent increase in establishments but still trailed the 17 percent increase for the nation. Similarly, in retail trade, there was a 1.0 percent decrease in state establishments in contrast to a 3.0 percent increase for the nation.

In competing for new businesses, Kansas' main competition is from the contiguous states of Missouri, Nebraska, Oklahoma, and Colorado. Kansas' performance in comparison to that of these neighboring states is shown in Tables 3 and 4. For the nine major industry groupings, Kansas' performance was better than that of Missouri and Nebraska since both showed no change in the number of establishments from 1978 to 1982 whereas Kansas had a 2.0 percent increase. In contrast, however, the states to the south and west of Kansas—Oklahoma and Colorado—both enjoyed substantially higher growth rates of 11.9 and 12 percent respectively. That is, in Kansas, new business formed at less than one-fifth the rate of Colorado and Oklahoma.

In all the nine major industrial categories, Kansas consistently outperformed Nebraska and Missouri yet showed a lower growth rate than Colorado and Oklahoma with the single exception of agricultural services. In that industry, Kansas had a 23 percent increase in establishments in comparison, for example, to Oklahoma's 18 percent. In all other instances, Kansas badly lagged behind its southern and western neighbors. The implication is that

Table 3
Business Establishments in Kansas and Surrounding States: 1978-82

Industry	KS		CO		MO		NEB		OK	
	1978	1982	1978	1982	1978	1982	1978	1982	1978	1982
Total	54,299	55,476	65,971	74,106	99,518	99,112	37,353	37,500	60,992	67,628
Agriculture	514	634	668	846	847	968	450	522	518	609
Mining	1,014	1,359	960	1,502	329	349	183	209	2,104	3,557
Construction	5,692	4,637	8,024	7,540	9,691	7,938	4,494	3,682	6,358	5,953
Manufacturing	2,989	3,029	3,529	3,904	6,766	6,605	1,819	1,803	3,442	3,719
Transportation	2,943	2,939	2,048	2,372	4,127	4,211	1,741	1,779	2,367	2,587
Wholesale Trade	5,143	5,497	5,241	6,141	9,829	9,966	4,008	4,051	5,109	5,987
Retail Trade	15,894	15,745	17,526	18,904	28,750	28,303	10,889	10,892	18,105	18,497
Finance	4,814	4,868	6,804	7,785	9,152	8,804	3,390	3,430	5,191	5,728
Services	13,978	15,677	18,667	23,408	26,990	30,248	9,373	10,487	15,800	18,603
Nonclassifiable	1,318	1,091	2,504	1,704	3,037	1,720	1,006	645	1,998	2,383

Source: *County Business Patterns*, 1978 and 1982.

Table 4
Growth in Major Industries for Kansas and Surrounding States as Measured by Percentage Change in the Number of Establishments: 1978-82

Industry	KS	CO	MO	NEB	OK
Total	2	12	0	0	11
Agricultural Services, Forestry, and Fisheries	23	27	13	16	18
Mining	34	56	6	14	69
Contract Construction	−19	− 6	−18	−18	− 6
Manufacturing	1	11	− 2	− 1	8
Transportation and Other Public Utilities	0	16	2	2	9
Wholesale Trade	7	17	1	1	17
Retail Trade	− 1	8	− 2	0	2
Finance, Insurance, and Real Estate	1	14	− 4	1	10
Services	12	25	12	12	18
Nonclassifiable	−17	−32	−43	−36	19

Source: Calculated from *County Business Patterns*, 1978 and 1982.

Kansas is not currently competitive with Colorado or Oklahoma in attracting new businesses.

In summary, Kansas outperformed two of its neighbors in aggregate business formation over the period but fell behind two others *and* the nation as a whole. Given this situation, the question arises as to why Kansas could claim "victory" in only two instances, possible answers to which will be addressed, as noted, in this report's concluding section.

A. Business Formation in Manufacturing Industries

In 1982, more Kansans were employed in manufacturing than in any other sector, a fact confirming the obvious point that the state of manufacturing is critical to the health of every modern economy. Manufacturing, particularly of complex products, has far-reaching input and output effects which make changes in manufacturing a barometer of changes in linked industries. Accordingly, this report turns to an analysis of the formation of manufacturing industries in Kansas, the nation, and neighboring states over the study period.

In total, manufacturing experienced an increase of 1.0 percent in the U.S. and 1.0 percent in Kansas. In this area, Kansas was able to keep pace with the national trend. Compared to its neighbors, however, Kansas manufacturing outperformed only Missouri, which experienced negative formation of 2.0 percent, and Nebraska, which was down 1.0 percent. As for the other two adjacent states, Colorado and Oklahoma widely outperformed the nation and Kansas with positive formations of 11 percent and 8.0 percent, respectively. Given the aforementioned importance of manufacturing to the overall health of the Kansas economy, this result is clear evidence of weakness.

Table 5 contains the data to support the evaluation of Kansas' manufacturing performance. Of the 18 manufacturing industries present in Kansas in 1978-1982 (identified at the two-digit Standard Industrial Classification [SIC] code level), Kansas experienced net negative business formations in nine plus the miscellaneous category. The U.S., on the other hand, showed declines in eight of the 18 industries plus the miscellaneous category.

Table 5 also identifies eight manufacturing industries which have high growth potential (these industries are designated by *). Of the eight, Kansas experienced net positive new business formation in six and negative change in two. This performance compares very well with the U.S. which showed positive changes in five and negative changes in two industries with one industry unchanged.

The strongest performance in high growth industries in Kansas occurred in rubber and miscellaneous plastic products (14 percent growth) and in electric and electronic equipment (20 percent growth). The worst performance was in chemicals and allied products which saw net negative formation of 3.0 percent.

In summary, the performance of Kansas in the manufacturing sector was good during 1978-1982. There were relatively strong showings in business formation in high growth industries, and Kansas matched the performance of the U.S. as a whole. This finding, in particular, suggests that Kansas has the strong potential to attract manufacturing firms even as other sectors of the state's economy do not grow on even decline.

B. Business Formation in Oil and Gas Extraction

The mining industry showed very strong growth in Kansas during 1978-1982 with the number of establishments up 34 percent in comparison to an increase of 26 percent in the United States. This growth was almost entirely in oil and gas extraction.

As shown in Tables 6 and 7, the number of establishments in oil and gas extraction jumped from 852 in 1978 to 1,223 in 1982, an increase of 43.5 percent. However, even with this high rate of growth, Kansas lagged behind the U.S. which saw the number of establishments increase by 49.3 percent in this industry. Nonetheless, oil and gas extraction has obviously been an important growth industry over the past five years for the state.

III. Geographic Location of Business Formation in Kansas

Having examined the statewide patterns of business formation over the 1978-82 period, this section of the report addresses the geographic distrubtion of that activity. Specifically, it seeks to answer the question: was business formation in Kansas equally distributed across the state and, if not, which areas of the state experienced more and which less than the state as a whole? The basic methodology employed is to compare the formation experience of certain key geographic subdivisions against the overall average performance of the state.

The first step was to identify five classifications which make economic and geographic sense:

. . . the growth rate in establishments in Kansas is less than half that for the United States.

Table 5
Growth in Manufacturing Industries for Kansas and U.S. as Measured by Percentage Change in the Number of Establishments: 1978-82

SIC	Industry	KS	US	Difference KS - US
—	Manufacturing	1%	1%	0%
20	Food and Kindred Products	–11	12	–23
22	Textile Mill Products	n.a.	– 4	
23	Apparel and Other Textiles	–22	– 8	–14
24	*Lumber and Wood Products	– 2	–11	9
25	Furniture and Fixtures	–24	1	–25
26	Paper and Allied Products	– 5	– 1	– 4
27	*Printing and Publishing	8	9	– 1
28	*Chemicals and Allied Products	– 3	– 1	– 2
29	Petroleum and Coal Products	10	4	6
30	*Rubber and Miscellaneous Plastic Products	14	14	0
31	Leather and Leather Products	–22	– 8	–14
32	Stone, Clay, and Glass Products	– 7	– 5	– 2
33	*Primary Metal Industries	3	0	3
34	Fabricated Metal Products	0	7	– 7
35	*Machinery Except Electrical	9	9	0
36	*Electric and Electronic Equipment	20	12	8
37	Transportation Equipment	– 1	– 6	5
38	*Instruments and Related Products	12	13	– 1
39	Miscellaneous Manufacturing Industries	– 6	– 4	– 2
—	Administrative and Auxiliary	6	4	2

*Includes some industries that are potential high growth.

Source: Calculated from *County Business Patterns*, 1978 and 1982.

Table 6
Oil and Gas Extraction Establishments in Kansas: 1978-82

	1978	1979	1980	1981	1982
Crude Petroleum and Natural Gas	420	429	465	500	539
Natural Gas Liquids	20	22	21	21	19
Oil and Gas Field Services	397	405	487	592	659
Other	15	7	6	13	6
Total	852	863	979	1,126	1,223

Source: *County Business Patterns*, 1978-1982 (Week of March 12).

1. Metropolitan Areas,
2. Contiguous Geographic Regions,
3. Industrial Loop,
4. I-70 Corridor, and
5. I-35 Corridor.

Using counties as the primary level of activity, Maps 1, 2, and 3 show how the counties in Kansas were designated according to the classifications listed above.

A. SMSAs

The majority of business formation occurred in the state's SMSAs (see Map 1). The four SMSAs all had positive growth, as shown in Table 8, ranking from 2.4 percent in Topeka to 13 percent in Kansas City. Over the five-year period, there were 1,179 additional establishments in the Kansas City SMSA in comparison to 1,177 for the entire state. By this measure, the bulk of economic growth is occurring in the Kansas City area, including, in particular, Johnson County. In contrast, the portions of the state not included in an SMSA saw a decline of 537 establishments, or 1.8 percent. A majority of establishments (30,092) in Kansas are still located outside of the SMSAs, but growth is concentrated in the SMSAs, particularly in the Kansas City SMSA.

B. Geographic Regions

Table 9 shows the number of establishments in 1982 and changes since 1978 for the six standard geographic regions of the state (see Map 2). By this measure, business formation was concentrated in the northeast area (centered in Johnson County) which showed a net gain of 1,307 establishments and in the south central area (centered in Sedgwick County) which gained 392 establishments. In the remainder of the state, there were declines, except in the southwest where the number of establishments increased by six. The greatest percentage decline was in the northwest which had a net loss of 97 establishments or 2.1 percent.

The state's acute imbalance in net business formations is illustrated by the concentration of growth in the northeast. The increase of 1,307 establishments in this area exceeds the increase for the state as a whole, highlighting the net decline in establishments in the remainder of the state.

C. Loop-Nonloop, I-35, I-70

Dividing the state by different geographical boundaries leads to the same conclusion as the earlier analyses(see Map 3): business forma-

tion in Kansas during 1978-1982 was centered in the urban areas around Wichita and, even more so, in the Kansas City metropolitan area (focused in Johnson County). Table 10 shows that the counties included in the loop had a 5.5 percent increase in establishments compared to a 2.1 percent decline in nonloop counties. The importance of the Kansas City area and Wichita is shown also by the 7.1 percent increase in establishments in the I-35 corridor and by the increase for the I-70 corridor of 1.6 percent. Counties outside of the corridor had a decline of 2.2 percent in establishments. The clear implication is that firms choosing to locate in Kansas are now showing a clear preference for urban areas centered around I-35 and I-70. Accordingly, other areas of the state are experiencing economic decline.

Table 7
Percentage Change in Number of Oil and Gas Extraction Establishments in Kansas and U.S.: 1978-82

	KS	US	Difference KS – US
Crude Petroleum and Natural Gas	28.3%	34.4%	– 6.1%
Natural Gas Liquids	– 5.0	18.4	-23.4
Oil and Gas Field Services	66.0	67.5	– 1.5
Other	-60.0	-63.7	3.7
Total	43.5	49.3	– 5.8

Source: *County Business Patterns*, 1978 and 1982.

Map 1

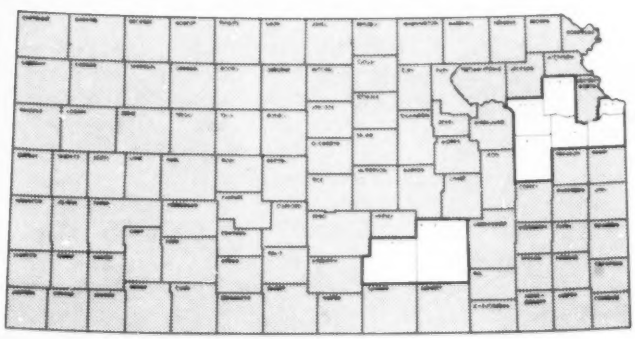


Table 8
Changes in Number and Percent of Business Establishments by SMSAs in Kansas: 1978-82

SMSA	Total Establishments 1982	Change From 1978	Percent Change
Kansas City	10,246	1,179	13.0
Wichita	9,816	362	3.8
Topeka	4,039	95	2.4
Lawrence	1,283	78	6.5
Non-SMSA	30,092	-537	-1.8
Total	55,476	1,177	

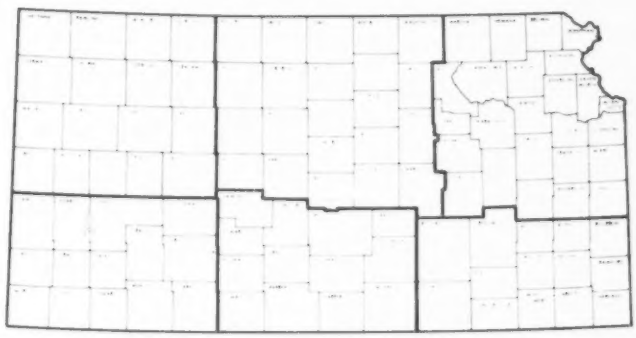
Source: *County Business Patterns*, 1978 1982.

Table 9
Changes in Number and Percent of Business Establishments by Geographical Regions in Kansas: 1978-82

Region of State	Total Establishments 1982	Change From 1978	Percent Change
Northeast	22,031	1,307	6.3
Southeast	6,775	-136	-2.0
North Central	8,006	-153	-1.9
South Central	13,224	392	3.1
Northwest	2,226	– 47	-2.1
Southwest	2,992	6	.2
Not Classified	222	-192	
Total	55,476	1,177	2.5

Source: *County Business Patterns*, 1978 and 1982.

Map 2



Map 3

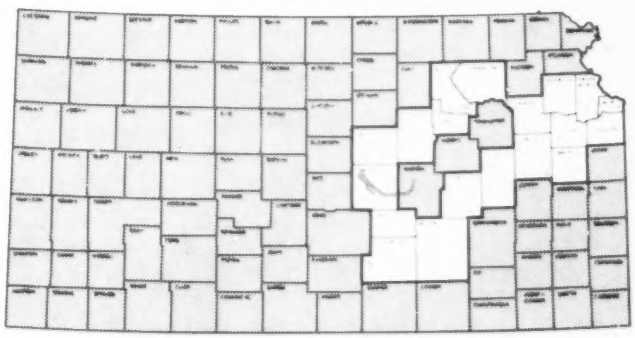


Table 10
Changes in Number and Percent of Business Establishments by Loop/Non-Loop and I-35/I-70: 1978-82

	Total Establishments 1982	Change From 1978	Percent Change
Loop	32,397	1,682	5.5
Non-Loop	23,079	-505	-2.1
Total	55,476	1,177	
I-35 Corridor	22,557	1,489	7.1
I-70 Corridor	11,285	179	1.6
Non-Corridor	21,634	-491	-2.2
Total	55,476	1,177	

Source: *County Business Patterns*, 1978 and 1982.

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Kansas has the strong potential to attract manufacturing firms even as other sectors of the state's economy do not grow on even decline.

IV. Business Formation by Establishment Size

The salient fact to consider when analyzing recent Kansas business formation by size is that the Kansas economy has a higher proportion of small businesses than does the United States. This report classifies establishment by size in the following manner: *small*, 1 to 19 employees; *medium*, 20-99 employees; and *large*, 100-plus employees. Incorporating those classes, Table 11 shows that Kansas in 1982 had a higher proportion of small businesses but a smaller proportion of medium and large businesses than the U.S. More specifically, in 1982, 88 percent of all Kansas establishments had 19 or fewer employees, whereas 86.5 percent of all establishments in the U.S. were small. For large establishments, the percentages were 1.6 in Kansas and 2.2 in the U.S.

The distribution of employment by establishment size shows the same pattern: by percent, more Kansans work for small businesses than do workers in the United States. As shown in Table 12, 32.7 percent of Kansas employees are in small business (1-19 employees) versus 26.8 percent in the United States. Large establilshments (100-plus employees) employ 36.5 percent of all Kansan workers but 44.8 percent of all employees in the U.S.

Table 13 show the distribution of establishments by size for the major industry groupings in Kansas for 1982. Only in manufacturing and mining is the percentage of establishments in the small category below 80 percent. In manufacturing, 63.2 percent of establishments are in the small class, 26.2 percent in medium, and 10.6 percent in large; in mining, 79.7 percent are small, 18.0 percent are medium, and 2.3 percent large. In contrast, 98.3 percent of agricultural services establishments are in the small class.

And yet, even though Kansas has a higher percentage of small establishments than the U.S., the state's greatest growth in businesses by size has been in medium and large establishments. Table 14 shows that, from 1978-82, there was an increase in small establishments of only 1.4 percent, whereas the increases for medium and large establishments were 2.8 and 9.4 percent, respectively. Over this period, there was a larger increase in the United States in the small and medium categories but not in the large category. Undoubtably, much of the change in the medium and large categories is due to the growth of existing firms which moves them to a higher category as well as to the establishment of new firms. Thus, the data suggest that the shortfall in establishment growth in Kansas has been in the small category, that very business sector representing the state's greatest source of economic strength and stability. The clear conclusion is that Kansans have not been establishing (or recruiting from other states) small businesses at the same rate as in the United States.

Tables 15 and 16 provide further support for the conclusion that Kansas has recently experienced sluggish small business establishment formation. Covering the period from 1978 to 1982, Table 15 demonstrates that 29.3 percent of employment growth for the U.S. was in small establishments but that in Kansas small establishments accounted for only 24.8 percent of employment growth. In contrast, a *higher* percentage of employment growth in Kansas was in larger establishments—38.3 percent as contrasted to 32.5 percent in the U.S.

The same pattern is revealed in Table 16 for the percentage change in employment size by establishment size. Employment growth in the large establishment category was 5.26 percent for Kansas and 4.07 percent for the U.S. Obviously, in large establishments, Kansas is outperforming the national average both in terms of the growth in establishments and growth in employment. The state's problem is in small establishments wherein employment from 1978-82 increased by only 3.76 percent, substantially below the 6.27 percent growth in the U.S.

V. Conclusions and Recommendations

There are several possible explanations for Kansas' business-formation experience. First, Kansas may simply be in a position of relative competitive disadvantage due to its environment for economic development, noting in this context such factors as tax policy, transportation facilities, the availability of skilled workers, climate, and even the state's reputation nationally.

Second, development of new businesses in Kansas was apparently not as diversified as that of its neighbors. Kansas experienced an average annual growth of 2.0 percent or more in only four sectors: agricultural services, forestry, and fisheries; mining; wholesale trade; and services. Colorado and Oklahoma, on the other hand, realized an average annual growth of at least 2.0 percent in eight sectors.

Third, Kansas may not be as aggressive as are other states in promoting economic development. The intensity of the increased competition among states for new business in recent years is exemplified by the contest among 27 states for GM's new Saturn plant, and, nationwide, state and local economic development agencies are aggressively marketing their advantages and offering incentives for firms to locate in their areas. These efforts typically include identifying a state's comparative advantage and targeting specific industries for development efforts. In contrast, the data reported in this study suggest that Kansas has not yet matched the level of effort that many other states have achieved of late. The clear implication is that Kansas needs to commit itself to economic development in no uncertain terms, developing and implementing a strategy whereby the contributions of all relevant agencies and organizations—both public and private—are focused toward attracting and nurturing new businesses to and in the state.

The clear implication is that Kansas needs to commit itself to economic development in no uncertain terms, developing and implementing a strategy whereby the contributions of all relevant agencies and organizations—both public and private—are focused toward attracting and nurturing new businesses to and in the state.

Table 11
Size of Business Establishments in Kansas and U.S.: 1982

Employment Class Size	% Establishments Kansas	U.S.
Small 1-19	88.0%	86.6%
Medium 20-29	10.4	11.2
Large 100+	1.6	2.2
Total	100.0	100.0

Source: Calculated from *County Business Patterns*, 1978-1982.

Table 12
Percent of Employment by Establishment Size in Kansas and U.S.: 1982

Employment Class Size	% Employment Kansas	U.S.
Small 1-19	32.7	26.8
Medium 20-29	30.8	28.4
Large 100+	36.5	44.8
Total	100.0	100.0

Source: Calculated from *County Business Patterns*, 1978-1982.

Table 13
Number of Establishments by Size for Kansas: 1982

Major Industry	Total Est.	% Establishment Size–Number of Employees Small 0-19	Medium 20-99	Large 100+
Agriculture	634	98.3	1.6	0.1
Mining	1,359	79.7	18.0	2.3
Construction	4,637	92.5	6.7	0.8
Manufacturing	3,029	63.2	26.2	10.6
Transportation	2,939	83.6	13.2	3.2
Wholesale Trade	5,497	87.9	11.3	0.8
Retail Trade	15,745	88.6	10.6	0.8
Finance	4,868	89.8	8.9	1.3
Services	15,677	90.7	8.1	1.2
Nonclassifiable	1,091	99.1	0.9	–

Source: Calculated from *County Business Patterns*, 1978-1982.

Table 14
Changes in Establishments by Size for Kansas: 1978-82

	1978	1978-82 Change	1982	% Change
	KANSAS			
Small 1-19	48,137	683	48,820	1.4%
Medium 20-99	5,334	416	5,750	7.8
Large 100+	828	78	906	9.4
	U.S.			
Small 1-19	3,839,164	174,108	4,013,272	4.5%
Medium 20-99	475,198	42,486	517,684	8.9
Large 100+	94,861	8,143	103,004	8.6

Source: Calculated from *County Business Patterns*, 1978-1982.

Table 15
Changes in Employment by Establishment Size for Kansas and U.S.: 1978-82

	KS Employment	% Change	US Employment	% Change
Small 1-19	8,771	24.8%	1,174,659	29.3%
Medium 20-99	13,042	36.9	1,531,273	38.2
Large 100+	13,507	38.3	1,302,084	32.5
Total	35,320	100.0	4,008,016	100.0

Source: Calculated from *County Business Patterns*, 1978-1982.

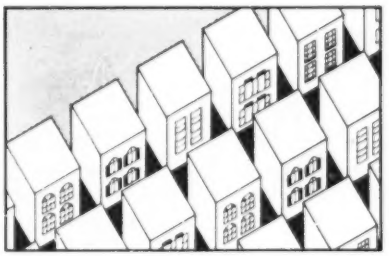
Table 16
Percentage Change in Employment by Establishment Size for Kansas and U.S.: 1978-82

	KS Employment	US Employment
Small 1-19	3.76%	6.27%
Medium 20-99	6.06	7.81
Large 100+	5.26	4.07
Total	5.01	5.70

Source: Calculated from *County Business Patterns*, 1978-1982.

Of Special Interest to the Small Business Owner and Operator . . .

Avoiding Liability for Employee Termination: Preventive Measures



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Introduction

Although firing an employee is never a pleasant task for an employer, recent court decisions suggest that it is often more than just an unpleasant duty. It may actually subject the employer to legal liability, even if the dismissal is for what the employer considers just cause. Certain precautionary measures, however, help reduce this risk.

A brief review of the legal history of employer liability highlights the need for preventive steps. As early as 1854, the New York Appellate Courts held that, in the absence of a proof-of-trade custom as to length of employmment, the employer was free to terminate at will. Although exceptions to the at-will doctrine have always been found in union agreements and other written contracts, otherwise, employers felt relatively safe dismissing employees for any reason well into the 20th century.

The doctrine, however, has been steadily modified since, roughly, the century's midpoint. Certain prohibited bases for dismissal immediately come to mind. For example termination on the basis of race, color, religion, national origin, or sex is prohibited by Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000e *et seq*. Also commonly known is that termination on the basis of union activity is prohibited by the Labor Management Relations Act, as amended, 29 U.S.C. § 151 *et seq*, and that termination may not be based on an employee's pursuing certain civic activities (e.g., serving on a jury).

More significantly, recent court decisions have expanded prohibited bases of termination to areas that are not so obvious and which may be pitfalls for business owners, supervisors, and personnel administrators. Wrongful discharge has been found in explicit or implied promises of job security (e.g., "You'll have this job as long as you work hard").[1] Personnel policies or statements made during a job interview also may be interpreted as promises of job security, as may personnel manuals.[2] A general course of conduct on the employer's part may mean that an employee has a vested interest in continued employment.[3] Courts have even gone so far as to impose a "covenant of good faith and fair dealing" on employer's contracts, including contracts of employment.[4]

This list of potential sources of liability is by no means exhaustive. Courts also have found that employment must continue because of general public policy[5] and that an employee is constructively discharged (e.g., compelled to quit) due to difficult working conditions.[6] If an employer makes derogatory statements about a terminated employee to a prospective future employer of the terminated individual, the former employer may be liable for interference with prospective contractural relations or defamation.[7] An employer has even been found guilty of negligence for not telling an employee of imminent termination.[8]

I. Procedures for Avoiding Liability

In the face of decisions such as these, it is understandable that many employers feel employment-at-will has evolved into employment-at-risk. Formulating and following certain employment practices, however, will aid in the abatement of many of the problems associated with the at-will doctrine.

A. Advertising and Recruiting

Precautionary measures should begin with the recruitment process: employers should review advertisements, brochures, and all other forms of solicitation of employment. No promises (explicit or implied) of continued employment should be made. Very simply, any such promises of job security must be kept; therefore, employers should not advertise more than they can deliver. In 1980, for example, one court found *no* contract of employment to exist based on the fact that the recruitment booklet specified in capital letters that it was not a contract.[9] Language such as this should be considered.

Courts have often found a contract of employment based upon statements made to applicants during a job interview. For example, an employer was held liable for terminating an employee who was told during a job interview that he would not be fired except for good cause.[10] Such statements are binding on the employer under general agency law; therefore, employers should train overzealous interviewers not to make specific promises of job security. A further precaution is to have language specifically disclaiming job security printed in a prominent place on the employment application. Such a disclaimer should be set forth from the rest of the document, in boldface print, immediately above the employee's signature.

Of course, such a disclaimer can have a negative effect on potential applicants; however, the disclosure would seem less ominous to potential employees if the employer precedes it with an assertion of employees' rights: for example, a statement that any individual hired may voluntarily leave employment with the proper notice could be followed by a statement that any employee may be terminated by the employer for any reason. As a result, the employee would be

. . . many employers feel employment-at-will has evolved into employment-at-risk.

bound by the statement on the application form that employment was terminable at will just as the employer would be bound by any statement of job security.[11]

Obviously, the most effective way to avoid liability for wrongful termination is to reduce the incidence of termination; careful hiring helps achieve this. Before hiring, employers should gather as much job-related data as possible about the applicant. Helpful in this regard would be a place on the application form for applicants to grant permission for the prospective employer to contact former employees and schools.

Newly-hired employees should sign an employment contract stating again (as on the application form) that the employment relationship can be terminated by either party, at any time, with or without cause; or that the assignment is not to be construed as a guarantee of employment for any specific period of time.[12]

B. The Personnel Policy Manual

Each company's philosophy is reflected in its personnel policy manual. One purpose of the document is, of course, to create a closer relationship between employers and employees, and this goal certainly should not be ignored. However, although the area is certainly in a state of flux with court decisions going both ways, certain courts have held that such manuals are binding, enforceable contracts between the employer and the employee. For example, in 1978, an implied contract was found in a manual which contained assurances that, during reductions in force, length of service would be a governing factor in deciding who would be laid off. When the employee continued to be employed, the employer's personnel policies were determined to be part of a bargained-for contractual relationship.[13]

With the proverbial ounce of prevention, such documents should be carefully reviewed and modified accordingly. Phrases referring to "permanent employment" could be changed to "fulltime employment"; "discharge for good cause" to "discharge at management's discretion with two weeks' notice." Avoiding phrases such as "tenure," "right to continue," and "permanency" is also strongly recommended.

Especially careful attention should be given to termination provisions. It is often desirable to preface the termination section of the policy manual with a disclaimer provision; such a provision should state that it is not the employer's intention to enter into a contract with employees. Also, the employer can help avoid any reasonable expectation on the part of employees that a particular policy will remain in effect by stating in the manual that policies are subject to unilateral change by the employer.[14] The disclaimer should explain that the termination discussion reflects the company's general philosophy and concerns about continued employment. It should stress the fact that each case is reviewed on its own facts and circumstances.

A danger, however, exists in taking a laundry-list approach, in trying, that is, to list all bases for termination. For example, in 1983, a court found that when an employee manual listed 36 violations as causes for dismissal, the employer's right of termination was limited to the listed reasons.[15]

A better approach might be to reserve for the employer the right to terminate "for any reason not prohibited by law" or at least "for any legitimate business reason."[16] If an employer strongly feels that it is desirable to list certain bases for termination, the listing should be expressly nonexhaustive (e.g., "Grounds for dismissal may include but shall not be limited to the following").

To be sure, many employers may be reluctant to include such broad dismissal language in a termination section, feeling that it may adversely concern employees; however, the risks of not including such language could be great. Also, employee concerns may be allayed by stressing the provision (and fact) that each case is reviewed on its own merit.

Moreover, the manual should not be viewed as a static document but must be reviewed regularly by the company's legal department in light of current changes in employment law. Also, supervisory employers responsible for termination should reread the document regularly, both to ensure their own compliance and to suggest any modifications necessary to conform with subtle (or otherwise) changes in company practice.

As a summary suggestion concerning manuals, it can be said that the more detail that is included in the manual concerning the termination procedure, the greater the potential liability. For example, because a company's handbook given to employees contained a disciplinary procedure, a court determined in 1983 that at-will employees could not be discharged without recourse to such procedures.[17] On another occasion that same year, an at-will employee had a cause of action for wrongful termination because an employee handbook set out procedures restricting the employer's right of discharge.[18] For these reasons, the termination process should be described in terms as general as possible.

C. Job-Performance Evaluations

Another area where employers may use preventive measures is in job-performance evaluations. The first consideration is whether evaluations are helpful or harmful in a wrongful discharge claim. A long history of satisfactory—or even neutral—evaluations is naturally important evidence to a terminated employee. However, well-documented evaluations showing consistent dissatisfaction with one or more aspects of an employee's performance are very helpful in justifying termination: without such documentation, a California court in 1981 found implied contractual rights to continued employment because of an employee's recommendations, promotions, and the lack of any direct criticism of his work.[19]

Employers should, therefore, develop a uniform, specific, goal-oriented evaluation document and clearly establish the goals of a job and express any dissatisfaction in terms of failure to accomplish those goals. This procedure assures that any evaluation will be as objective as possible.

It is always desirable to have input on the evaluation form regarding the strengths and weaknesses of an employee for two reasons. First, it makes the evaluator's job easier: no one likes to criticize other people. However, if a supervisor can comment on positive aspects of an employee's performance, there will be less reluctance to list areas that need improvement. Also, in the event of a suit for wrongful discharge, this inclusion of an employee's strengths is good evidence to a jury of the employer's good-faith efforts at a fair performance appraisal: e.g., that the employer did recognize a terminated employee's qualities

. . . have language specifically disclaiming job security printed in a prominent place on the employment application.

The more detail that is included in the manual concerning the termination procedure, the greater the potential liability.

but that these were outweighed by a legitimate business reason in discharging the employee. In a 1979 court decision, for example, termination of an individual was justified when evaluation reports going back several years reflected both strengths and weaknesses in performance.[20]

It is important that performance appraisals be conducted by the proper personnel. The evaluator should have an opportunity to observe directly an employee's work and not make an evaluation based solely on hearsay and the information of others. The evaluator must be aware of the company's goals for a given employee and be in a position to judge achievement of those goals. In the event of litigation over the employee's discharge, a jury will be more likely to consider as accurate an evaluation done by a person in such a post.

Of course, evaluators should take this aspect of their job seriously, realizing that their own job performance will be judged in part by how they accomplish this important task. Aware that at least some aspect of each evaluation will be negative (e.g., room to improve), the evaluator must be "thick-skinned" enough to give a fair, objective evaluation and, thereafter, to continue supervising the evaluated employee. Employers should take care to stress to supervisors the importance of the evaluation tool and that it is to be a candid observation of an employee's work.

The written evaluation should be discussed with the employee in a face-to-face meeting. This meeting will demonstrate to the employee how seriously the employer views the evaluation process. As well, the employee can question how a supervisor judged a particular area, request clarificaiton of any objectives not clearly understood, or even present evidence to contradict a given conclusion. Having the opportunity to go over the evaluation in such a manner results in a more satisfied employee than would be the case had merely a copy been received in the mail or with a paycheck. The employee should sign a copy of the evaluation to acknowledge receipt. Such meetings and acknowledgment are evidence to a jury of an employer's good-faith effort to communicate with an employee about job performance. A jury would also view most favorably a space on the form for the employee to actually comment on the evaluation. It would be very difficult for a discharged employee later to dispute the conclusion of an evaluation without an objection on record when given the opportunity to do so.

The employer also should monitor the overall evaluation process. Before reviewing evaluations with employees, it may be desirable to have the evaluator present the documents for review to a higher supervisory employee, preferably one who also has the opportunity to observe the evaluated employees. This procedure has the obvious advantage of giving a second opinion on each employee. The evaluations could also be reviewed against each other to see if, as a whole, they might be too high or too low. Unintentional (or intentional) bias in the documents, such as consistently rating one class of employees lower than another class, might be revealed by this comparative analysis. Of course, it is far better to have such bias exposed internally at this time rather than after a suit has been filed.

Employers should not wait until evaluation time, however, to advise an employee of unacceptable job performance. An objection is most effective if voiced immediately after the action has occurred. While a performance evaluation may occur only annually, immediate reaction to employee conduct throughout the year provides the opportunity to correct the problem without repeated occurrences, perhaps, thereby, avoiding future problems. Even if the situation continues unimproved, this immediate feedback is evidence of the employer's good-faith effort to communicate with the employee. Generally, it is most important that an employer has documentation that an employee knew his/her performance was unsatisfactory, was told that it must change, and was given the opportunity to improve. In serious situations such as theft, this may not be appropriate, but, if the problem is general poor job performance, such timely action is desirable.

Progressive discipline—a system of penalties imposed with increasing severity—should also be used. The first infraction might result, for example, in counseling or other warnings, followed by written warning. The final written warning should be accompanied by copies of any earlier written warnings and any negative evaluations. The employee should be informed of the specific areas that need improvement, be given a time period within which to improve, and be told that dismissal will follow if no improvement is made. It is necessary that progressive discipline be administered fairly. In such a situation, fairness does not necessarily mean that each employee receives the same discipline for every offense, as there may sometimes be extenuating circumstances, but, rather, that all employees should be judged by the same standards with no discrimination. If progressive discipline is applied, no employee should be surprised when discharged.

Employers must be truthful in all communications with employees, including statements about termination possibilities, lay-offs, and plant closings because to be other than truthful may subject the employer to liability for misrepresentation. However, to be truthful in all statements does not mean that a statement must always be given. Therefore, supervisors possessing knowledge of confidential matters should respond to such an inquiry by stating that they are not at liberty to discuss the matter. Admittedly, the tendency is to respond with what the employees want to hear in order to keep a satisified, productive work force (e.g., "There will be no lay-offs within the next twelve months" when, in fact, some are actually being planned). This tendency to misrepresent must be resisted since a false response may subject the employer to liability for fraud. It may be desirable to have all questions concerning a certain subject directed to one individual who has all the facts on a situation and has been instructed about how much to reveal at the time. No comment is better than a false one.

D. Termination

Unfortunately, the next preventive measure is one often neglected by employers: that is, after a direct supervisor recommends the firing of a particular employee, the recommendation should be independently reviewed before termination is carried out. The reviewer should not be merely a rubber stamp, automatically approving all termination recommendations—indeed, such a system would be very harmful at trial, more so than not having a review process at all. An internal board of review might accomplish this necessary purpose quite well.

The reviewer should be aware of the law

It is most important that an employer has documentation that an employee knew his/her performance was unsatisfactory, was told it must change, and was given the opportunity to improve.

. . . the recommendation should be independently reviewed before termination is carried out.

concerning job termination and of the company's personnel policies and procedures and should critically regard such issues as these: Was another employee only given a warning in an identical situation? Has anyone in the company made any representations to this person concerning job security? Did the employee know that his/her performance was unsatisfactory? Is there sufficient documentation in evaluation forms and personnel files? Are there any statutory problems with the termination? Have other supervisors commented (favorably or otherwise) on this employee's work? Is the termination in contravention to the company's personnel manual? Is it consistent with the company's prior course of conduct? Would a lesser disciplinary action be appropriate? Is this a long-term employee?

By their very nature, certain situations should cause a reviewer to examine the proposed termination very closely. If the recommendation for termination comes from a new supervisor to the area, for example, the questions should arise as to whether the decision was based on the new supervisor's observation of the employee or on a previous supervisor's evaluation, whether the new supervisor had adequate opportunity to judge the employee, and whether the termination was recommended immediately after an employee objected to an unsafe or illegal employer activity. Of course, any termination recommendations made in anger demand scrutiny. If an employee is being terminated a short time after exercising a legal right (e.g., serving on a jury, filing a worker's compensation claim), the situation should be examined with great care. Even if the above occurrences were not the true reason for termination, it may look that way to a jury. Therefore, in these cases especially, it should be determined if adequate communication, warning, and documentation of the real reason for dismissal were given.

After a decision for termination has been reached, it must be clearly communicated to the employee. This is best done in a face-to-face meeting with the employee, with the cause for termination explained in a direct, truthful way. Any misrepresentations concerning the real reason for discharge will come out in trial, impeaching the employer's credibility even if termination was actually justified. However, it is important to note that, although the employee must be told the reason for discharge, specific details are not necessary and should be avoided as much as possible. If an employer tries to quote figures or statistics, even a minor mistake may result in litigation and be interpreted in court as the (wrongful) reason for dismissal. For instance, one reason given for dismissal should be "tardiness" rather than, say, "being late for work ten times in the last six weeks," because the truth may be that actually the employee was late only nine times—a fact that could be used to persuade a jury that an employer was wrong about each basis for termination. In the same vein, any questions the employee has about termination should be answered without apology, as an apology may be perceived by a jury as an indication of guilt over wrongdoing. The employer should listen to what the employee has to say without becoming defensive and follow up the meeting with a written memo confirming the action.

Even voluntary termination may subject an employer to liability under a theory of constructive discharge; that is, an employee need not necessarily be fired in order to sue for wrongful termination. In some cases, employees allege they were compelled to resign because working conditions were extremely unpleasant. An internal complaint procedure where employees can express dissatisfaction helps correct problems of this kind before legal redress. Such an open-door policy also helps reduce the risk of successful constructive discharge claims. It would be difficult for an employee to allege quitting for a particular reason when no record exists of complaints.

At any rate, an exit interview should be held for all departing employees, especially for those leaving voluntarily. This process can help improve both the original hiring process and the overall work environment. Employees should be asked to explain why they are leaving in as much detail as possible. If it appears, for example, that an employee may have been mistreated, the employer might ask the employee to postpone leaving in order to allow an opportunity for further investigation. The employer may find that a problem does exist in working conditions that can be corrected, resulting in the employee continuing work; or the investigation might reveal no problem within the organization, and the employee may then leave. In all instances, the focus should be on the characteristics of the job, not on attacking personalities.

No matter what the outcome, such an investigation surrounding a voluntary termination where mistreatment is alleged demonstrates the employer's good faith—important evidence if suit is later brought alleging constructive discharge. Records of all resignation interviews and any subsequent investigations should be kept.

Finally, employers must control access to performance evaluations and be careful in answering questions about former employees. If an employer goes into the reasons for dismissal, then defamation or interference with prospective contractual relations may be charged. Even if the information given is not negative, the potential employer may misinterpret what is said. Therefore, employers may want to reveal only the date a former employee was employed and the type of duties performed. Although the risk of suit on these bases is slight, quite likely the employer has nothing to gain by giving more than the very minimum of information. A caveat is that, if positive records concerning former employees are freely communicated but only very little is said about negative records, it is easy to infer that this course of conduct is actually a communication that certain employees (those about whom very little is said) were undesirable.

II. Conclusions

Following these suggestions will not insure that an employer will never be called to defend a wrongful termination case, and not all the recommendations are realistic for everyone; however, developing sound employee relations policies and practices will reduce the risk of liability in the event that suit is brought. Each employer should review the items selected with corporate counsel to evaluate the feasibility and need for implementation. Once a decision is reached, the personnel department should train all supervisors to follow the newly-adopted employment policies.

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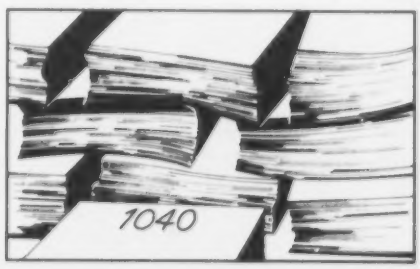

Income Tax Reform

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Dr. Faurot, University of Kansas Associate Professor of Economics, was named the 1984-85 recipient of the Byron T. Shutz Award for Distinguished Teaching on Economic Systems. The following article is an edited transcript of his Byron T. Shutz lecture delivered this past April at the University of Kansas.

Introduction

Three prominent, rather similar proposals for reform of the U.S. income tax system have placed a classic microeconomic problem before the American taxpayer. Two of the tax reform bills—Bradley-Gephardt and Kemp-Kasten, named for their sponsors—were introduced in Congress in 1984; a third, more recent proposal comes from the U.S. Treasury Department following a request from President Reagan. Each proposal calls for extensive overhaul and simplification of the U.S. income tax system. One primary objective of all three is to broaden the tax base by eliminating opportunities to reduce taxable income: if more income is subject to taxes, tax rates can be reduced without reducing tax revenue. Another central objective is to reduce the differences in tax rates as determined by how income is earned or spent. All three proposals are designed to raise the same amount of revenue as the current system raises from a given-sized economy. Although some changes in tax burdens would occur if any of these reforms were adopted, their purpose is not to shift tax burdens among taxpayers; that is, taxes paid by most persons should remain approximately constant if their gross income remains constant. The microeconomic effects, however, would be significant: the changes could significantly affect the individual taxpayer's incentives in respect to work and investment.

My remarks on this issue are inspired by the findings of many recent public opinion polls: according to the Associated Press, as reported on January 27, 1985, for example, "Most Americans favor the Treasury Department's tax simplification and revision plan, but a majority also admit to little or no understanding of the proposed changes." At times, even President Reagan appears to some to be a member of this majority. In his State of the Union speech, he endorsed the current calls for tax reform, but, after being informed by *The Wall Street Journal* the following week that his Treasury Department's proposal would raise the corporate tax burden by 37 percent while reducing the burden on individuals, the President responded that this was a "detail" he didn't know and that he "would have to be convinced of the need to do that." Despite the confusion that can obscure this economic issue—that can, in particular, call into doubt the need for reform because of the uncertain outcomes arising from proposed changes—many analysts still insist that reforms are necessary. Counting myself among these advocates, I would like to offer three reasons arguing the case for change: the need for greater simplication, equity, and economic efficiency than the present system affords.

The current proposals call for extensive overhaul and simplification of the U.S. income tax system. One primary objective of all three is to broaden the tax base by eliminating opportunities to reduce taxable income.

I. The Need for Reform

The U.S. income tax began in 1913, the original form 1040 covering only about two pages with the instructions short enough to be placed on one page. Since then, we have had numerous "reforms" resulting in what is often described as a maze of credits, exemptions, exclusions, and deductions. Today, more than 40 percent of U.S. taxpayers hire somebody to prepare their tax returns. Clearly, to many—if not most—of the taxpaying public, the system seems too complex. Yet, simplification is possible, and reducing the complexity of the U.S. tax system is one major motivation for tax reform. In Britain, for example, most workers do not need to file any income tax forms. In Japan, about 90 percent of the wage earners do not have to file tax forms.

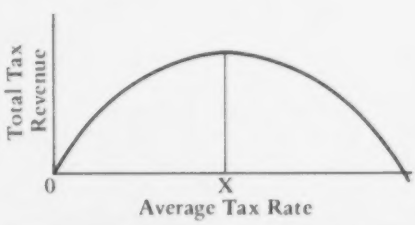
The current tax system is also commonly believed to be unfair. Fairness is difficult to define, but, as a minimum definition, equity should mandate equal taxes among persons of equal incomes and other relevant characteristics. In the present instance, however, taxes often differ among such similar persons because some use legal tax shelters or cheat. Indeed, according to an IRS-commissioned survey, half of the taxpayers questioned believe that at least one quarter of the taxpayers cheat, and evidence exists that these suspicions are not far off the mark. Among this surveyed sample, for instance, 19 percent confessed to being guilty of cheating. Common sense tells us that cheating could be minimized by cutting the opportunities for special consideration by which taxable income is reduced—as noted, a particular intent of all three current proposals. Moreover, the proposed reforms are also designed to reduce the use of tax shelters, and, thus, tax simplification may promote fairness by reducing differences in taxes among similar persons.

The most interesting economic arguments for tax reform focus on the effects of changes on incentives for work and investment. That is, it may be possible to increase economic efficiency and, consequently, public welfare by inducing changes in behavior in response to tax changes. Most economists agree that current tax laws induce some undesirable behavior, a situation that logically leads to the proposition that changing tax laws and, hence, behavior could increase national welfare. It is important to recognize, however, that tax reductions do not, by themselves, yield increases in real national income: U.S. national income is determined by U.S. production of goods and services. As a nation, we cannot increase real national income without increasing real production of goods and services. Thus, cutting taxes does not necessarily increase real national income. We may, however, be able to change the tax system and, as a result, change incentives for work and investment. Changed incentives, in turn, may induce changes in production which do, then, increase individual welfare and national income.

A. Taxes and Economic Incentives: The Laffer Curve

The Laffer curve is a recently popular relationship reflecting the effect of taxes on economic incentives (see Figure 1). This curve shows the relationship between tax rates and tax revenue. The average tax rate could be measured along the horizontal axis and total tax revenue could be measured along the vertical axis. The Laffer curve would then be an inverted U-shaped relationship, showing how tax revenue changes as the tax rate changes.

Figure 1
Estimated Laffer Curve for U.S.: 1973



The logical basis for the relationship seems convincing. If the tax rate is zero, tax revenue is zero. As the tax rate increases from zero, tax revenue increases. Low tax rates have small effects on incentives, but, as the tax rate increases, reduced incentives to earn income become important. There is some high tax rate usually assumed to be 100 percent at which work, investment, and tax revenue would all be zero. It is possible that tax rates greater than 100 percent would be required to eliminate income-generating activity of some persons who enjoy work, but some high tax rate must be sufficient. Therefore, the basic relationship represented by the Laffer curve must exist, but the precise shape is difficult to determine. At some specific tax rate, say rate X in Figure 1, government tax revenue is maximized. If the tax rate is greater than the revenue-maximizing tax rate, then the economy is on the downward sloping portion of the Laffer curve, and tax cuts will yield tax revenue increases. If so, we might reduce the deficit by cutting taxes. Thus, following the logic of the Laffer curve, the reason for such tax revenue increases when the tax rate is reduced is the increased incentive for work and investment following the tax cut, resulting in increased national income.

Arthur Laffer has a curve bearing his name, but Adam Smith recognized this same relationship in 1776 for commodity taxes. In Book V, Chapter II of *The Wealth of Nations*, he wrote:

> High taxes, sometimes by diminishing the consumption of the taxed commodities, and sometimes by encouraging smuggling, frequently afford a smaller revenue to government than what might be drawn from more moderate taxes.

When this was written, income taxes had not been introduced, but, obviously, the idea is the same as the Laffer curve.

Tax cuts which induce increased tax revenue would be an example of how the effects of a tax change on the incentives of economic agents can increase economic welfare and national income. However, there is no good evidence that the U.S. overall is on the downward sloping portion of the Laffer curve. A careful study using 1973 data found an average total tax rate on gross labor income of 31.8 percent. For labor income, the revenue-

. . . three reasons argue the case for change: the need for greater simplication, equity, and economic efficiency than the present system affords.

Adam Smith's "invisible hand" is more effective in guiding resource allocation when economic profits rather than tax savings attract investors.

maximizing tax rate (point X on Figure 1) was estimated to be 78.8 percent.

An important point to consider in this context is that some advocates of tax reduction misinterpret government tax and revenue data to make the case that the U.S. is on the downward sloping portion of the Laffer curve. Just one example of this kind of misinterpretation is citing that the 1964 Kennedy tax cuts were followed by increases in government receipts. Those increases, however, were caused by an expanding labor force and by decreases in unemployment, and the expanding labor force was caused partially by population growth. Moreover, the decrease in unemployment was caused by increased aggregate demand. The point to be made is that none of these is an effect of changed incentives.

In summary, the Laffer curve relationship refers to effects of changed incentives in a full employment economy. Transitory and population change effects should be factored out, yet popular discussions of the Laffer curve often cite evidence of supposed tax change effects which include unnoticed effects of inflation, unemployment, and population change.

B. Marginal and Average Tax Rates

Economic theory emphasizes the distinction between marginal and average values of variables. Specifically, the marginal tax rate is the tax rate on additional income, whereas the average tax rate is total taxes divided by total income. For example, a person in the 45 percent federal income tax bracket would pay 45 percent of an additional dollar of income as federal income tax, but this person would not pay 45 percent of total income as federal income tax because income taxes are progressive. This means that the average tax rate increases as income increases. A mathematical implication of having progressive taxes is that the marginal tax rate is greater than the average tax rate: for 1984 federal income taxes, a marginal tax rate of 45 percent is associated with an average tax rate of 32 percent, whereas a marginal tax rate of 33 percent is associated with an average tax rate of 20 percent. Thus, because decisions regarding increased work effort or investment are influenced by resulting increases in income after taxes, marginal tax rates, more than average tax rates, help determine whether increased work or investment is worthwhile.

Most discussions of the Laffer curve, including mine above, focus on the average tax rate. This rate—in contrast to the marginal—is easier to calculate from available data, and it also yields a nicer curve. Furthermore, the theoretical basis for the relationship between tax revenue and the average tax rate is easier to explain and understand. An alternative approach would be to use the marginal tax rate, but either approach omits an important determinant of economic behavior and government tax revenue. That is, economic theory implies that both tax rates are important, meaning that a change in the marginal tax rate, with no change in the average tax rate, would have an impact on economic behavior. Accordingly, the three prominent proposals reduce marginal rates without significantly changing average rates. The Treasury Department proposal has been studied most carefully, and it reduces the average marginal tax rate by 20 percent. This change could have a significant impact on economic behavior as the effects of 1981 tax legislation suggested. That package reduced the highest marginal tax rates for federal income taxes from 70 percent to 50 percent. For high income persons, the result of this tax rate decrease was a tax payment increase in subsequent years (see Table 1). This change is due to an increased number of high income persons *and* reduced incentives for tax avoidance and use of tax shelters. The current proposals continue in the direction of the 1981 changes.

II. Proposals for Reform

The Bradley-Gephardt, Kemp-Kasten, and Treasury Department proposals are all called a modified flat tax. Under Bradley-Gephardt, there are three tax brackets, with rates of 14 percent, 26 percent, and 30 percent, the highest rate applying to income in excess of $60,000 for a joint return. Under Kemp-Kasten, there is a single 25 percent tax rate; the Treasury Department proposal has three tax brackets with rates of 15 percent, 25 percent, and 35 percent, with the highest rate applying to income in excess of $63,800 for a joint return. In contrast, current tax law contains 14 tax brackets ranging from 11 percent to 50 percent.

Also, many special deductions, exclusions, allowances, and tax credits would be eliminated under the proposed programs. Moreover, the Treasury Department estimates that 78 percent of the taxpayers would pay the same amount or less under its proposal, with poor families and middle income persons who use few deductions or credits most likely benefiting the greatest from the proposed changes by paying less tax on current income.

A reduction in marginal tax rates could also benefit even those persons who do not pay less tax on current income—this advantage emerging for persons who are currently discouraged from additional work by high marginal tax rates. In particular, reducing marginal tax rates could make additional work desirable, but the importance of this possibility is difficult to measure. Labor supply research indicates that a small minority of men and a larger number of women would prefer to work more if marginal tax rates were reduced.

Another possible social benefit of reduced marginal tax rates would be reduced tax advantages from shelters. Again, economic theory persuades us that it is desirable to motivate investors to seek economic profits, but, currently, many investments are motivated primarily by tax savings which may arise without economic profits. In the case where investments generate tax savings and economic losses before taxes, they are most often undesirable for the economy.

For example, if the marginal tax rate is 50

Table 1
Tax Payments by Highest Income Groups: 1981-83

Income Class**	Taxes Paid:* 1981	1982	1983	% of Total Taxes Paid: 1981	1982	1983
Over $100,000	$43,633	$49,387	$55,781	15.0%	17.3%	19.6%
Over $1,000,000	4,901	6,955	10,231	1.7	2.4	3.6

*In millions of dollars; refers to total tax liability.
**Adjusted gross income

Source: Internal Revenue Service.

The thrust of all the suggested business investment tax reforms is to eliminate both cost-reducing and cost-increasing investment tax distortions.

percent, an investment generating a loss of $10,000 will reduce current taxes by $5,000. This loss would be desirable for the taxpayer if there is a future return with present value after taxes greater than $5,000. This future return could be a capital gain taxed at a lower rate than other income. Under current law 60 percent of a capital gain is excluded from taxes, and the remainder is taxed at a top rate of 50 percent. Suppose the $10,000 loss generates a $9,000 capital gain. Taxes on the capital gain would be at most $1,800, leaving $7,200 after taxes. For the taxpayer, the $10,000 loss generates $5,000 of current tax savings and $7,200 of future income after taxes. This opportunity could be profitable for the taxpayer. For the economy, however, losing $10,000 today to earn $9,000 in the future is a waste of resources. The possibility of benefits for a taxpayer from an activity which is a waste of resources for the economy arises here because tax rates differ for different types of income.

The Treasury Department proposal has two effects on this situation. First, the future return required for tax advantage would be higher if the reduction in current taxes were reduced from $5,000 to $3,500. This is the reduction in current tax savings which would follow from adoption of the Treasury Department proposal. Second, the proposal would reduce tax advantages of capital gains relative to other income. These modifications would reduce tax advantages obtainable from tax shelters. Adam Smith's "invisible hand" is more effective in guiding resource allocation when economic profits rather than tax savings attract investors.

Oil and gas drilling is one industry where the effects of tax policy artificially stimulating investment can be seen. For example, an investment in either an oil well or, say, a steel mill is an expenditure that generates a stream of income over some future time period, but a special provision of the Internal Revenue Code presently permits deduction of intangible drilling costs from current income. These costs are typically two thirds to three fourths of the costs of digging a well. Without this special provision, intangible drilling costs would be part of total investment costs, which could be deducted from future income in accordance with standard rules for depreciation. Thus, investing in an oil well yields deductions soon, but investing in a steel mill yields deductions only gradually over many years. As a result, because deductions from current income are worth more than equal deductions from future income, the effect of special provisions for oil and gas drillers is to make investment in oil and gas relatively more attractive than investment in steel. The effect on the economy of this distortion of incentives could be that we reduce national income by allocating resources to oil that would yield higher returns to the country if they were allocated to steel. The Treasury Department proposal advocates elimination of the intangible drilling costs deduction.

The proposed changes in business taxes are more controversial than the proposed changes in personal income taxes. The current system of business taxation has been described as a haphazard industrial policy, favoring some activities and penalizing others without, seemingly, any coherence. Senator Spark Matsunaga of Hawaii, for example, is proud of the generous tax breaks he engineered for the macadamia nut industry and for the Hawaiian cruise ship industry. If these industries require tax breaks for prosperity, the United States would probably be better off without them. According to the Treasury Department, current effective tax rates on different investments range from 40 percent on factories to -8.0 percent on cars. One tax policy critic described this as the "kind of incentive only a Mercedes dealer could love."

Business tax changes in the Treasury Department proposal include reducing the corporate tax rate from 46 percent to 33 percent and repealing some tax incentives for business investment, thereby reducing differences in taxation among investments. Specifically, the investment tax credit is one investment subsidy suggested for elimination. This provision currently permits a deduction of 6.0 percent to 10 percent of some investment expenditure from the current tax bill. It may, for example, now be used on automobile purchases. Elimination of the subsidy seems desirable for economic efficiency because, as discussed, taxes may reduce economic efficiency and increase economic costs when they change production methods. Thus, the investment tax credit can create demand for equipment when labor would be a more economically efficient input choice. If so, the investment tax credit leads to a waste of resources.

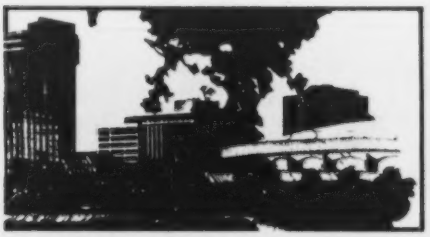
The thrust of all the suggested business investment tax reforms is to eliminate both cost-reducing and cost-increasing investment tax distortions. Needless to say, beneficiaries of existing distortions are alarmed; victims of existing distortions are relatively complacent.

III. Conclusions

Economic theory predicts that incentive distortions will generate behavior distortions, but it is difficult to measure the behavioral effects. A recent study by Keith Marsden of The World Bank compares international differences in tax rates and economic growth. In comparisons of countries with similar per capita incomes, countries with lower tax rates had higher growth rates during the decade of the 1970s. For example, Japan had lower taxes and higher growth than Sweden; Singapore had lower taxes and higher growth than New Zealand. These findings are consistent with the view that incentives for work and investment influence behavior. That is, reduced incentives are likely to cause reduced economic activity and reduced growth.

The current tax reform proposals should eliminate distortions in some incentives. More particularly, reductions in marginal tax rates should stimulate growth, also providing, as an additional benefit, increased opportunities for some lawyers and some tax shelter sales people to find more socially productive employment.

The Industrial Revenue Bond User Revisited: Large Corporations or Small Business?



Loran B. Smith

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Introduction

One of the most enduring controversies surrounding the use of industrial revenue bonds (IRBs) has been the extent to which they have been used to aid large corporations rather than—or even at the expense of—small businesses. IRB critics charge that too many bonds have been issued to large, profitable corporations that already have easy access to more conventional methods of financing. IRB defenders, while admitting that large corporations have benefited from some IRB issues, maintain that the overwhelming majority of all industrial revenue bonds have gone to the direct benefit of small business.

This controversy is not the proverbial "tempest-in-a-teapot." At stake are billions of dollars of lost revenue to the federal treasury; a fact of significant importance as business persons and citizens grow increasingly concerned about the size of the federal deficit. In addition, millions of dollars in state and local revenues are affected adversely in those states which grant property and other tax exemptions to IRB recipients.

While the evidence for both sides of this controversy is open to debate, one of the best studies of IRB use is that published by Murray S. Levin and Kent Wooten three years ago in this journal.[1] The Levin and Wooten study considered the 65 IRBs issued by Wichita between 1975 and 1981. Differentiating between small and large businesses on the basis of the number of employees and annual gross revenues, the authors found that 58 percent of the bond issues were devoted to businesses with fewer than 50 employees but that 81 percent of the IRB dollar proceeds were assigned to businesses with more than 250 employees. Moreover, their study found that 60 percent of IRB dollar proceeds went to corporations with annual gross revenues in excess of $100 million. On the basis of the total dollars involved, then, large businesses would appear to be the major IRB beneficiary. The authors, however, maintain that, since many of the largest bond issues did not qualify for the "small issue" exemption, these bond issues should be excluded from consideration.[2] If this is done, then small businesses predominate in terms of IRB dollars, and, as a result, Levin and Wooten conclude that large businesses have not been the chief direct beneficiaries of IRBs issued by the City of Wichita.

By limiting their research to only 65 bonds issued by one city in a relatively brief period of time, the representative character of the Levin and Wooten study is called into question. To be sure, the authors concede that Wichita's IRB practice may not be typical of other cities, yet one should also inquire whether the 65 bond issues are representative of Wichita's entire IRB experience.[3] Moreover, the authors' definition of a large business does not allow one to distinguish between IRBs granted to international conglomerates and IRBs issued to very successful Kansas firms. Such a distinction, however, might be crucial in evaluating bond usage.

These limitations indicate that another investigation of IRB use is warranted. This study proposes to investigate IRB use in 17 Kansas cities of the first class between 1962 and 1983. In particular, this study will attempt to determine the extent of large corporate use of industrial revenue bonds by defining large corporations as corporations (including their subsidiaries) which are listed in *Fortune* magazine's ranking of the 500 largest industrial corporations and the 500 largest nonindustrial corporations. By increasing the number of cities included, lengthening the time period considered, and defining large corporations in terms of 1,000 *Fortune* corporations, one may be in a better position to evaluate the extent to which IRBs have aided large corporations.

I. IRB Use in Kansas Cities of the First Class

Kansas cities are divided into three classes based on population. Cities with a population above 15,000 may become cities of the first class. Once a city attains that designation, it may remain a city of the first class even if its population falls below 15,000. Accordingly, there are 24 cities of the first class in Kansas, ranging in population from 279,272 in Wichita to 8,893 in Fort Scott. Because many of these cities suffer from the same problems that afflict major cities throughout the United States—urban sprawl, a deteriorating downtown, inadequate housing, and a stagnant economic base—it is in such cities that the strongest case can be made for using industrial revenue bonds.

To obtain information about IRB use in these 24 cities, a survey was devised and sent to each city, to which 17 cities responded, including eight of the state's 10 largest cities as well as most of the cities near the median population size for the class. With the exception of Kansas City, Salina, and Shawnee, the nonrespondent cities have populations of less than 16,000. The information obtained from

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IRB critics charge that too many bonds have been issued to large, profitable corporations . . . . IRB defenders maintain that the overwhelming majority of all industrial revenue bonds have gone to the direct benefit of small business.

the survey, therefore, should provide a reasonably accurate picture of IRB use in the state's largest cities.

The 17 cities issued 553 industrial revenue bonds between 1962 and 1983. Among these bonds, five general categories of bond usage can be identified: industrial/manufacturing, retail/commercial, health, agribusiness, and other/unknown. While the first two categories are self-explanatory, some further specification is required for the latter three categories. The health category includes IRBs issued for hospitals, clinics, nursing homes, and retirement villages. The agribusiness category includes bonds issued for feedlots, grain elevators, rendering plants, and food processing. The other/unknown category is a catch-all for bonds issued for unspecified purposes or for purposes other than those specified above such as college dormitories, a YWCA, a training academy, and the like.

This classification scheme has the advantage of enabling one to compare IRB use across the 17 cities. Also, classification may help one to assess the extent to which large corporations have been aided by industrial revenue bonds. More specifically, whereas most analyses of large corporate IRB recipients tend to emphasize corporate bonds as a percentage of the total bonds issued, this technique reduces the actual impact of large corporate bond issues because it includes bonds issued for purposes in which large corporations are not likely to be competitive. For example, *Fortune* corporations are not as likely to be found in retail/commercial and health categories as they are in industrial/manufacturing and agribusiness categories. But by combining all four categories, the percentage of bonds granted to *Fortune* corporations appears smaller. Thus, in isolating bond usage by category, one should be in a better position to gauge the true impact of *Fortune* corporations.

Table 1 shows that, of the 553 IRBs issued, 40.7 percent were used for industrial/manufacturing purposes while 33.6 percent were used for retail/commercial purposes. The table also indicates that bond issues were almost evenly split between industrial/manufacturing and agribusiness, on the one hand, and the retail/commercial and health on the other (47.9 percent to 44.6 percent). If *Fortune* corporations are unlikely to be as active in the retail/commercial and health categories, then the large number of bonds issued in those categories would have the effect of diluting the overall impact of *Fortune* IRB recipients.

Table 1 also reveals that Wichita has made extensive use of IRBs. In contrast to the 65 bond issues that Levin and Wooten studied, this study found that Wichita issued 174 IRBs between 1962 and 1983—almost a third of all IRBs issued by the 17 cities. Because Wichita has an economic infrastructure which is strongly industrial, one would suspect that the large number of bond issues would include a significant number of IRBs issued to *Fortune* corporations. Moreover, Wichita has a policy which specifically discourages retail or commercial use of IRBs.[4] As a result of the large number of bonds issued by the city and the combination of its economic infrastructure and city policy, one would expect to find that IRBs issued to *Fortune* corporations would most likely be concentrated in Wichita.

Table 1
IRBs by City and Purpose

City	Total IRBs	Purpose of IRBs				
		Ind./Mfg.	Retail/Comm.	Health	Agribus.	Other
Atchison	18	5	2	2	8	1
Dodge City	31	9	12	2	4	4
Emporia	13	5	1	1	3	3
Garden City	18	1	6	7	2	2
Hutchinson	30	9	7	10	2	2
Junction City	15	11	1	2	0	1
Lawrence	36	23	5	2	4	2
Leavenworth	19	7	6	5	1	0
Lenexa	61	24	33	1	0	3
Liberal	8	1	2	1	3	1
Manhattan	16	6	7	2	1	0
Olathe	50	23	19	3	0	5
Overland Park	10	3	5	1	0	1
Pittsburg	18	16	1	0	1	0
Prairie Village	1	0	1	0	0	0
Topeka	35	11	20	1	3	0
Wichita	174	71	58	21	8	16
Total	553	225	186	61	40	41
Percent	100	40.7	33.6	11.0	7.2	7.4

Source: *Survey of Kansas Cities of the First Class.*

II. IRBs and *Fortune* Corporations

When Congress created the "small issue" exemption and made the interest on qualifying IRBs exempt from income tax, it did so in the expectation that IRBs would be used to finance high-risk, small manufacturing concerns in economically distressed areas. It is not surprising, therefore, that Congress reacted negatively to reports of extensive IRB use by large, profitable corporations which had ready appeal to standard methods of financing and which were rarely located in economically distressed areas.[5]

In attempting to rectify the situation, however, Congress was confronted with the problem of defining the term "large corporation." The term connotes different things to different people, and even quantitative definitions based on presumably objective criteria can result in vastly different conclusions. For example, Ralph Nader defined a large corporation as

. . . large corporations were major, direct beneficiaries of industrial revenue bonds.

one with over 5,000 employees and annual gross revenues of over one billion dollars. The Levin and Wooten study employed the criterion of over 250 employees and $50 million annual gross revenues.[6]

The problem of finding an acceptable definition of a large corporation led to this study's use of *Fortune* magazine's lists of the 500 largest industrial corporations (the *Fortune* 500) and the 500 largest nonindustrial corporations (the *Fortune* Service 500). While this criterion may omit some large firms, it has the advantage of providing a minimal base from which one can guage the extent of large corporate use of IRBs. If, for example, it can be shown that *Fortune* corporations received a significant number of IRBs, then that would indicate that other large firms have also received a significant number of IRBs. In addition, the use of *Fortune* corporations as a standard allows one to differentiate between an international conglomerate and a very successful Kansas firm—a distinction that may be crucial in evaluating a recipient's need for the bonds, the economic impact of the bonds upon the community, and the growth potential of the recipient corporation.

Table 2 shows that 44 of the 1,000 largest industrial and nonindustrial corporations or their wholly-owned subsidaries have been recipients of IRBs issued by the 17 Kansas cities. These 44 firms account for 15.2 percent of the bond issues and 41.9 percent of the bond proceeds. Although *Fortune* uses different systems in ranking industrial and nonindustrial corporations, the table reveals that some extremely large and profitable firms have been IRB recipients. For example, of the 27 industrial corporations listed, 19 had *Fortune* rankings in the top 50th percentile. Similarly, five of the six retailing corporations and six of the eight diversified service corporations found in the table also ranked in the top 50th percentile of their respective categories in *Fortune's* Service 500. This finding suggests that most of the large corporations listed in Table 2 could have used alternative forms of financing instead of IRBs.

Table 2
IRBs and *Fortune* 1,000 Largest Corporations

Corporation (Subsidiary of)	City Which Issued Bonds	Number of IRBs	Bond Value (in millions)	1982 Rank Fortune 500	1982 Fortune Service 500*
Allied Supermarkets (Nash-Finch)	Liberal	1	2.00		52-S
American Hospital Supply	Overland Park	1	4.5		11-S
Boeing	Wichita	5	251.00	34	
Cessna	Wichita	2	10.03	332	
Deluxe Check Printers	Lenexa	3	2.239	427	
Derby Oil (Coastal)	Wichita	5	65.000	54	
Farmland Industries	Dodge City Hutchinson	2	2.000		6-S
Gates Learjet	Wichita	4	5.5	428	
General Motors	Overland Park	1	3.55	2	
B.F. Goodrich	Lawrence	1	3.7	128	
Holiday Inns	Lawrence Manhattan Olathe Topeka (2)	5	28.25		31-S
Hoover Universal	Lenexa	1	2.00	409	
International Paper	Pittsburg	1	1.00	91	
Iowa Beef (Occidental Petroleum)	Garden City (2) Emporia (2)	4	106.225	15	
ITT-Continental Baking	Olathe	1	8.000	16	
K.C. Biological (Corning Glass)	Lenexa	2	3.25	222	
Kilsby Tubesupply (Flour)	Wichita	1	1.00		3-S
K-Mart	Leavenworth	1	1.8		3-R
Lear Siegler	Wichita	1	1.1	233	
Litton Industries	Olathe	2	3.2	68	
MEI	Wichita	2	10.0	448	
R.H. Macy	Topeka	1	4.0		27-R

Table 2 (cont.)

Corporation (Subsidiary of)	City Which Issued Bonds	Number of IRBs	Bond Value (in millions)	1982 Rank Fortune 500	1982 Fortune Service 500*
Mercury Marine (Brunswick)	Lenexa	1	2.35	274	
NCR	Wichita	2	4.3	109	
Nabisco	Wichita	1	0.7	52	
National Beef (Idle Wild Foods)	Liberal	2	5.0	421	
PSA	Wichita	1	1.35		34-T
Pepsico	Liberal	2	8.28	41	
	Wichita				
Pillsbury	Atchison	1	2.0	115	
Quaker Oats	Lawrence	3	18.5	146	
Ralston Purina	Liberal	1	1.00	71	
Ramada Inn	Leavenworth	1	1.6		94-S
Safeway	Emporia (2)	4	20.35		2-R
	Wichita (2)				
Select Products (Flemming)	Leavenworth	2	14.75		10-S
Sysco	Olathe	1	7.5		32-S
TRW	Lawrence	2	6.25	66	
Uniroyal	Lenexa	1	4.65	186	
United Parcel Service	Manhattan	1	.225		2-T
Upjohn	Wichita	1	.75	191	
Volume Shoe (May's Dept. Stores)	Lenexa (1)	6	15.675		20-R
	Topeka (5)				
Wal-Mart	Olathe	1	3.15		21-R
Wheeling-Pittsburg Steel	Lenexa	1	3.25	354	
Whirlpool Corp.	Lenexa	1	1.00	168	
F.W. Woolworth	Junction City	1	26.00		12-R
Total		84	667.974		
Percent of All Bonds (N = 553)		15.2	41.9		

*The corporations in the *Fortune* Service 500 are ranked by category rather than simply listed together. Thus, the 50 largest retailing corporations, the 100 largest diversified service corporations, and the 50 largest transportation corporations are three of the categories used. In the table above, the letter next to a number in the *Fortune* Service 500 column refers to that corporation's ranking in a particular category. The letter R refers to retailing corporations, S refers to diversified service corporations, and T refers to transportation corporations.

Source: *Survey of Kansas Cities of the First Class*, "The *Fortune* Directory of the Largest U.S. Industrial Corporations," *Fortune* 107 (May 2, 1983): 226-246; and "The *Fortune* Directory of the Largest Non-Industrial Corporations," *Fortune* 109 (June 11, 1984): 172-190.

The table also reveals that every city except Prairie Village issued an IRB to a *Fortune* corporation. As expected, Wichita led all other cities both in number of *Fortune* corporations receiving IRBs and in the number of bond issues granted to *Fortune* corporations. Wichita's leadership, however, was not overwhelming. Wichita's percentage of *Fortune* corporation IRBs (33.3 percent) is approximately the same as its percentage of total IRBs issued by the 17 cities (31.5 percent). Moreover, after making allowances for population differences, some other cities are not too far behind Wichita. For example, Lenexa issued 11 IRBs to eight different *Fortune* corporations, and Olathe issued six IRBs to five different *Fortune* corporations.

However, the manner in which Wichita's bond practices are somewhat unique is in the size of its IRB issues. The average proceed from a *Fortune* corporation in Wichita was $13.33 million while the average for proceeds of similar bonds in the other 16 cities was $5.26 million. In contrast, the average size of a non-*Fortune* corporation bond issue was only $1.97 million. Clearly, Wichita and, to a lesser extent, other cities favored *Fortune* corporations over non-*Fortune* corporations in the amount of IRB dollars they authorized.

Of course, none of these data conclusively prove that *Fortune* corporations were major beneficiaries of industrial revenue bonds. After all, such firms received only 15.2 percent of the total bond issues. Moreover, one could argue, as Levin and Wooten did, that the extremely large bond issues given to

One begins to look for suspicious motives or hidden conspiracies to account for the extent of large corporate involvement with IRBs. The evidence, however, clearly suggests that no such dark designs were present.

Boeing, Derby Oil, and Iowa Beef should be excluded from consideration because they did not qualify for the "small issue" exemption. If these large bond issues are excluded, then the 1,000 largest corporations account for only 16.6 percent of the total bond proceeds—certainly not an inordinate amount.

On the other hand, none of these data conclusively prove that large corporations were *not* major IRB beneficiaries. Indeed, the evidence presented here may only be the tip of the iceberg. For example, two large corporations, Hallmark Cards and Cargill, which between them accounted for 14 bond issues and over $70 million, were not included in the study because they are private corporations. There could be others of a similar character. In addition, Kansas law provides for a 10-year property tax exemption for facilities constructed through IRB financing.[7] The data provided by the 17 cities indicates that 34.2 percent of the *Fortune* corporation bonds received property tax exemptions. This fact makes it impossible to exclude any bonds from consideration. Even if these aspects are ignored, the fact remains that, when the extremely large bond issues are excluded, the average amount of IRB money going to a *Fortune* corporation was still larger than the average amount going to a non-*Fortune* corporation.

It appears that as long as the influence of *Fortune* corporations is measured in terms of total bond issues and total bond proceeds, interpretations of the results will differ considerably. The problem seems to be that the influence of *Fortune* corporations is hidden when one considers the aggregate. One way to resolve this problem is to consider IRBs by the purposes for which they were issued and then determine the extent to which *Fortune* corporations have used IRBs in each category. This approach is reflected in Table 3.

Table 3 reveals a clear pattern of bond usage. When IRBs are categorized by purpose, the table shows that *Fortune* 500 and *Fortune* Service 500 firms dominate the bonds proceeds issued in the industrial/manufacturing and agribusiness categories. As a matter of fact, *Fortune* corporations received over 21 percent of the bond issues and over 65 percent of the bond proceeds when the two categories are combined. In contrast, only 21.7 percent and 20.5 percent, respectively, of bond proceeds went to *Fortune* corporations for retail/commercial and other/unknown uses. Not surprisingly, none of the health-related IRBs went to a *Fortune* corporation.

The table indicates why most previous studies of IRB use by large corporations have come to contradictory conclusions. By focusing only on total bond issues, these studies have allowed certain patterns of bond usage to become blurred or erased completely. Certainly, in the case of the Kansas cities of the first class, the significant number of health issues and, to a lesser extent, retail/commercial issues hid the true impact of *Fortune* corporations. One indication of this impact is that, when one removes the health issues from consideration, *Fortune* corporations account for 17.1 percent of all bond issues and 48 percent of all the bond proceeds. And, if one included the bond issues to Hallmark Cards and Cargill, large corporations would account, at a minimum, for 20 percent of the bond issues and 53.6 percent of all bond proceeds—figures that force one to conclude that large corporations were direct, major beneficiaries of industrial revenue bonds.

III. Conclusions

This study attempts to determine the extent to which large corporations have been aided by industrial revenue bonds issued by 17 Kansas cities of the first class. After narrowly defining a large corporation as one which was listed in either the *Fortune* 500 or the *Fortune* Service 500, the study found that 44 such corporations received 15.2 percent of all IRB issues and 41.9 percent of all IRB proceeds. It was also discovered that the average dollar value of IRBs given to *Fortune* corporations was significantly higher than the average dollar value of IRBs given to all other recipients. Finally, the study found that, when IRBs are considered by the purposes for which they were issued, *Fortune* corporations account for over 21 percent of the bond issues and over 65 percent of the bond proceeds used for industrial/manufacturing and agribusiness purposes. Moreover, if health IRBs are removed and IRBs issued to Hallmark Cards and Cargill are included, then 20 percent of all bond issues and 53.6 percent of all bond proceeds issued by the 17 cities benefited large corporations.

These findings lead to the conclusion that large corporations were major, direct beneficiaries of IRBs. This conclusion, however, does not mean that they were the *only* beneficiaries. Small businesses did benefit from IRBs, especially if one evaluates benefits in terms of the number of bond issues. But the key to evaluating IRB usage may rest with the money involved, not the number of bond issues. On the basis of IRB dollars, large corporations clearly have the advantage over small business.

There are at least two reasons why the bond dollars may be the most critical variable in evaluating IRB use. First, most of the IRBs, including most of the extremely large issues,

Table 3
Percent of Bond Issues and Proceeds Issued to *Fortune* Corporations by Purpose

Purpose	Total Bonds	Bonds Issued	Percent of Bonds Given	Total Bond Proceeds (in millions)	Bond Amount Given	Percent of Bond Money Given
Industrial/ Manufg.	225	43	19.1	647.593	420.73	65.0
Retail/ Commercial	186	22	11.8	317.312	68.919	21.7
Health	61	--	--	214.91	--	--
Agribusiness	40	14	35.0	206.345	135.725	65.8
Other/ Unknown	41	5	12.2	207.979	42.6	20.5
Total	553	84	15.2	1594.139	667.974	41.9

Source: *Survey of Kansas Cities of the First Class.*

Large corporations—having the expertise and resources to plan and prepare all the necessary documentation—happened to be in a better position to make requests than the average small business.

were exempt from state and local property taxes. Since these tax exemptions were roughly in proportion to the size of the bond issues, large corporations obviously received the lion's share of tax breaks. This is especially true if one excludes from consideration health-related IRBs, most of which were tax exempt anyway.

A second reason to evaluate IRBs on the basis of bond proceeds concerns the process itself. The evidence suggests that, until recently, most of the 17 cities were willing to fund any reasonable IRB request placed before them. City officials considered IRBs to be "free money," so rarely did they scrutinize proposals. The most critical element of the IRB process, therefore, was the banks which actually provided the money. In deciding whether or not to fund an IRB, banks generally followed the same critieria they used for commercial loans.[8] Accordingly, such criteria favor large profitable corporations over higher risk small businesses. In addition, large bond issues would conceivably reduce the available money that banks have to loan. As a result, some IRB applicants might be refused or offered lesser amounts.

It should be emphasized that a danger arises upon arriving at these conclusions: one begins to look for suspicious motives or hidden conspiracies to account for the extent of large corporate involvement with IRBs. The evidence, however, clearly suggests that no such dark designs were present. Eager to pursue economic development strategies and generally understaffed and ill-equipped to engage in long-term planning, most Kansas cities were ready to give an IRB to almost anyone who asked during the study period. Large corporations—having the expertise and resources to plan and prepare all the necessary documentation—happened to be in a better position to make requests than the average small business. And the banks were simply following sound financial practices. Given these circumstances, it is hard to see how large corporations could have failed to be major beneficiaries of industrial revenue bonds.

Footnotes

[1] Levin, Murray S. and Kent L. Wooten, "The Industrial Revenue Bond User: Giant Corporations or Small Business? The Wichita Experience," *Kansas Business Review*, Vol. 5, No. 4 (February-March, 1982): 8-12.

[2] The Revenue Expenditure and Control Act of 1968 provided for two types of tax-exempt IRBs: (1) issues of unlimited size restricted to the construction and expansion of convention facilities, sports and trade shows, airports, wharves and docks, air and water pollution, and sewer and waste disposal, and (2) issues of limited size but for unrestricted purposes. This latter type, called "small issue" IRBs, was originally limited to $1 million but was increased to $5 million. In 1978, Congress increased the "small issue" limit to $10 million. Congressional Budget Office, *Small Issue Industrial Revenue Bonds*, September, 1981, pp. 10-11.

[3] Levin and Wooten, p. 12.

[4] Levin and Wooten, p. 12.

[5] Congressional Budget Office, pp. 9, 12-15.

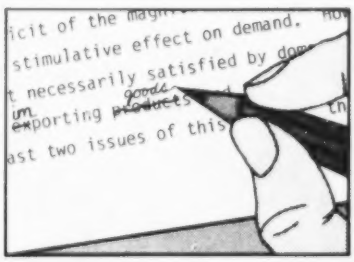
[6] Levin and Wooten, p. 11.

[7] *1963 Session Laws of Kansas*, c. 456, 1.

[8] Congressional Budget Office, p. xiv.

Research Note

Continuing Education for the Small Business Owner



Introduction

Whether we call them entrepreneurs or small business owners, over 15 million people in the United States operate independent businesses. Many of these are part-time businesses, and a large number have fewer than five employees; as a total entity, however, they represent a very significant share of our nation's economy.

The educational backgrounds of the men and women who operate the nation's small businesses are varied: some have technical degrees with graduate work in business administration, whereas others have not completed high school. Of course, education has never been a prerequisite for success in business, and many have made millions with no formal preparation; on the the other hand, many more fail each year and have wished for seminars or courses that would guide them through the maze of business requirements.

Bookstores and libraries do a brisk business in publications about starting and operating a small business, and universities offer seminars on the same subject which are well attended. Programs for people already in business, however, are not as plentiful and often are poorly attended. The question arises, then: why is there not a greater demand by small business owners for continuing education programs?

Numerous studies have been conducted to determine why small business owners do not seek out and attend more educational programs designed to enhance their ability to succeed. Most participants in these studies agreed that they should attend more educational or training classes, and they also verified that they need help in the areas of accounting, finance, management, and marketing; however, they also comment that programs are offered at the wrong time, that the

instructors are not practical in their approach, or that universities are not the proper organizations to conduct such activities.

I. The Washburn Study

In the spring of 1984, the Washburn University School of Business decided to conduct its own research on the topic, basing its study on small business owners in the greater Topeka area. This was to be a closely controlled study of a random cross section of the local small business community.

A data base was developed containing the names of, and other pertinent information about, all small businesses in Shawnee County, Kansas. These were businesses which were involved in commercial or industrial activities, which had fewer than 500 employees, and which met the U.S. Small Business Administration annual sales dollar volume for the specific industry. In addition, the businesses had to be locally owned and operated with the intent of making a profit. Professionals were eliminated as well as local branches of businesses that were headquartered outside of Shawnee County. When completed, the small business data base contained 3,589 entries.

An 88-item questionnaire was developed to measure the following variables about local small business owners:

- demographic characteristics
- business continuing education participation
- the need for financial planning competency
- the need for accounting competency
- the need for management skills competency
- the need for marketing skills competency
- the desired business continuing education environment.

The questionnaire contained only closed-ended questions and was designed to be administered through personal interview.

The names of 50 small businesses were randomly selected from the data base, and telephone calls were made to arrange interview appointments. Two additional random selections had to be made to get 50 businesses to agree to the interview. All interviews were conducted at the business owner's place of business during normal business hours.

II. Findings

Based on the study data, the typical Shawnee County, Kansas small business owner is a white male in his 40s who has completed some college work. The majority started completely new businesses and have been in business for over 10 years; their businesses are either service or retail businesses and are incorporated. Slightly less than half (48 percent) have participated in business continuing education programs, and those who participated did so at either a university or through an association.

A significant purpose of the study was to determine if small business owners perceived competency in accounting, finance, management, and marketing as essential to the successful operation of a small business. The grand mean of the responses to questions concerning the competencies was 4.09 based on a maximum possible score of 6.00, indicating that the owners consider competency in these areas as above average in importance.

The survey participants preferred the university environment for continuing education and felt that business programs should be conducted on weekday evenings. There did not appear to be any strong consensus as to who should teach such programs, with university professors, business professionals, and other business people all gaining about equal favor. Strong emphasis was placed on the practicality and timeliness of the topics.

Although no correlation was found to exist between the desire for continuing education and formal education, there was a strong relationship expressed between past participation in such programs and the desire to attend future programs.

III. Conclusions and Recommendations

If the study conclusions are generalized to the entire county small business population, a case can certainly be made for an active business continuing education program. Business owners appear to be traditionalists, preferring classes that emphasize "the basics" and that are conducted in the traditional environments (colleges and universities).

Improved communications and interaction between the academic community and local business owners are essential to the future success of business continuing education programs. The comment was heard many times during the survey, "We are pleased that the University is interested in what we think!"

Other owners felt that they were too old or had too many years in the business to profit from continuing education programs. An attempt should be made to team these seasoned small business owners with experienced university professors to combine credibility and first-hand experience with professional teaching ability.

Universities must also understand the behavior pattern of the small business community. Owners are reluctant to take valuable time away from the business if they do not feel it will be of practical benefit.

Finally, the study reflected rather traditional thinking as far as subject matter is concerned—accounting, finance, marketing, and management topics were all considered important, with participants placing heaviest emphasis on management. Even so, in respect to developing relevant programs for the small business community, the question needs to be asked: are these topics those that participants enjoy the most or those they should have for future success? This issue is one that needs further study as educational institutions continue the search to provide meaningful programs for small business owners and operators.

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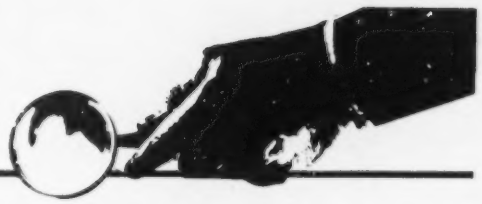
Economic Conditions

The National Review



The State of the Economy

Following a strong fourth-quarter GNP growth rate of 4.3 percent, first-quarter 1985 GNP growth registered an anemic 1.3 percent. This drop in the rate was not the result of slow growth in demand for goods and services but, rather, the result of a larger portion of that demand being satisified by imports.

Table 1 presents the components of GNP for 1984:4 and 1985:1 and shows that the demand for goods and services grew from $1675.7 billion to $1693.9 billion, a growth rate of 4.4 percent. A substantial decline in net exports (imports grew more than exports) satisfied a larger share of the appetite of the U.S. economy than in the previous quarter. Net exports declined from -13.4 billion to -26.1 billion, accounting for a change in GNP from $1662.4 to $1668.0 billion, a change of only 1.3 percent.

There was, therefore, a large discrepancy between the growth in demand and the growth in GNP: the former was healthy, the latter weak. This phenomenon of the growth rate of domestic demand growing more rapidly than the growth rate of GNP has been occurring regularly since the current expansionary phase began in 1983:1. The reason for this development can be attributed, in large part, to the budget deficit.

A budget deficit of the magnitude we are presently experiencing has a pronounced stimulative effect on demand. However, as shown above, the demand is not necessarily satisfied by domestic production; it may be satisfied by importing goods and services. In fact, as has been argued in the last two issues of this journal, there are forces which, to some extent, make the budget deficit and trade deficit coincide. Simply stated, when the budget is in the red, the Treasury is spending dollars it does not have, and, subsequently, it goes on the market to get those dollars. This increased demand for dollars increases both interest rates and the value of the dollar relative to other currencies. Thus, foreigners, who want to take advantage of the U.S. interest, need dollars to do so. To get dollars, they sell their products to the U.S., and, rather than buying U.S. products in turn, they then loan the dollars to the U.S. in order to reap the interest. Hence, the domestic demand created by the budget deficit is met with the trade deficit.

Interest Rates and Prices

Paul Volcker has expressed particular concern about the budget deficit's effect on the manufacturing industries, which are hurt by the strong dollar, and Fed Vice Chairman Martin has recently voiced concern that the economy is entering a period of "growth recession," e.g., a period when growth is not large enough to prevent increases in the unemployment rate. Volcker's concern for the manufacturing industries and Martin's for the overall state of the economy have led to a liberal increase in the money supply; currently, the money supply growth is well above the 4.0 to 7.0 percent target range. As expected, the increase in the supply of money is putting downward pressure on both interest rates and the dollar: the prime rate fell to 10 percent, and the mortgage rate declined to around 13 percent. The risk incurred by the current rapid growth in the money supply is, of course, the danger of reigniting inflation. The inflation of the late 1970s was extinguished by a combination of slow growth in the money supply, a severe recession which relieved capacity constraints, and a rising dollar which made foreign goods less expensive to purchase in the U.S. Currently, plenty of capacity exists in the economy, as measured by the unemployment rate (7.3 percent) and factory utilization rate (81 percent). But, if the increase in the money supply succeeds in moderating the interest rate and the dollar's strength as it is intended to do, the price of imports will increase.

Attempting to curb imports by cutting interest rates and, thus, the dollar's value relative to foreign currency by increasing the money supply is dangerous to the extent that inflation could flare up. If inflation were to become a problem while Volcker is Chairman, reviewing his stewardship of the Fed during the 1981-1982 recession indicates clearly what will happen next. During that period, Volcker imposed severe restraints on the money supply, determined, apparently at any cost, to get inflation out of the economy. The danger of this scenario of inflation-monetary clamp down-recession occurring exists if Volcker and Martin go to excess in the monetary expansion.

Of course, a less risky way of bringing interest rates down would be to reduce the budget deficit. In a dramatic turnaround, the Administration is admitting now the relationship between the budget deficit and interest rates (during the campaign for president and until very recently, Reagan denied this relationship). This change in public policy is perhaps one reason some progress is being made in the negotiations to reduce the deficit.

If progress is made and if the budget deficit

Table 1
Components of GNP

	1985:1	1984:4
Personal Consumption	1,087.9*	1,075.4
Investment	274.7	273.0
Inventory Change	20.7	16.8
Government Purchases	310.6	310.5
Demand	1,693.9	1,675.7
Net Exports	−26.1	−13.4
GNP	1,668.0**	1,662.4**

*Billions of 1972 dollars.
**Columns do not add to total due to rounding.

is reduced, interest rates should reach a lower level. As mentioned above, some stimulative effect to the economy would immediately be lost if the budget deficit were reduced, yet this set back would be offset, to some extent, by activity generated by a lower interest rates and a reduction in the trade deficit.

Employment

The unemployment rate remained steady at 7.3 percent over the months of February, March, and April—a relatively high rate in a historical context—and its failure to fall recently has been a disappointment. Behind the unemployment rate are, however, some genuinely positive as well as some disturbing trends on the employment front.

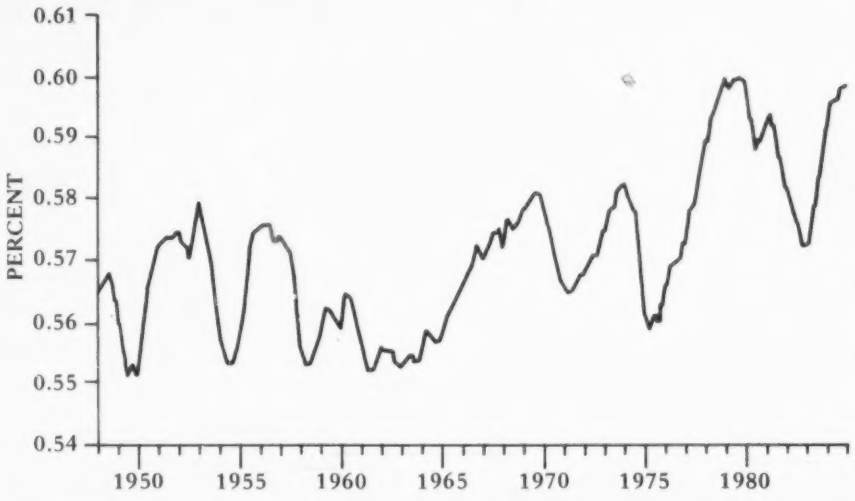
During the first quarter of 1985, 849,000 more people became employed than in the last quarter of 1984, a very healthy increase. And, in March, the percent of the adult population (over 16) that is employed reached 60.3 percent, a historically high figure. The reason the unemployemnt rate has not been falling as a result of the increase in employment is that the labor force has also been increasing rapidly. So, although a relatively high unemployment rate in historical terms is currently being experienced, the percent of the population that is working is at an all-time high. (The unemployment rate is the number of unemployed divided by the labor force; the labor force is the number of employed plus the number seeking employment.)

Figure 1 presents the percent of the population that is employed by quarter from 1948:1 to 1984:4 and reveals that not only is the percentage cyclically sensitive, as one would expect, but that there is also a secularly increasing trend. The quarteriy percents have varied from a low of 55.1 in 1950:1 to high of 60.1 in 1985:1.

Also, as demonstrated in the figure, the cyclical behavior of the ratio is quite evident. For example, the ratio rose from 56.0 to 60.0 following the 1974-75 recession and prior to the 1980 recession. The labor force increases in an expansion not only because the number of employed increases but because the number seeking employment increases also. The latter cause relates to what is called the discouraged worker effect: that is, in a recession, many people became discouraged when seeking employment and quit looking; they drop out of the labor force. As employment prospects improve with an expansion, however, the discouraged workers re-enter the labor force.

A negative aspect of the employment situation is in manufacturing. According to establishment data, the number of production workers in manufacturing has increased by a little more than 2,000 from 13,443,000 to 13,445,000 from April 1984 to April 1985; this contrasts strikingly to a nonagricultural employment increase of 3,280,000 from 93,449,9099 to 96,731,000.

Figure 1
Percent of U.S. Population Over 16 Employed



Housing and Autos

Contrasting to the performance in the manufacturing industry is that of the construction and auto industries: both are doing well. The housing industry is benefiting from a decline in interest rates in general and declining mortgage rates in particular. Both sales of new single family housing and housing starts were up significantly in March: sales of new single family housing were up 8.9 percent, for a very good annual rate of almost 700,000, and housing starts were at their highest annual rate in a year.

The auto industry is running close to capacity. Interest rate incentives are being used by the auto companies to push sales. The auto sales figures are strong, and inventories are estimated to be at a 52-day supply compared to the 60-day supply that industry analysts feel is desirable. Therefore, auto production is expected to stay close to capacity production. One point of interest in the auto industry is that the "voluntary" import quotas on Japanese autos expired in mid-March, so it is still to be seen how the U.S. auto maker will compete.

Summary

In the previous issue, the Institute forecast that the rate of growth in GNP in 1985:1 would range between 4.0 to 5.0 percent and that the unemployment rate would dip below 7.0 percent. Although those numbers turned out to be overly optimistic, cause for optimism for the near future remains. In particular, imports are not anticipated to grow as rapidly in the second quarter as the first, so GNP growth rate will be around 4.0 percent.

However, some analysts foresee a scenario—with historical precedence—for a recession in that, as an expansionary period starts "bumping" capacity constraints, prices, in turn, are pushed up. The rising prices then cause a monetary clamp down by the Fed, and interest rates rise rapidly and inhibit business investment, in general, and certain industries such as housing and autos, in particular. But the current expansion is certainly not at this phase: capacity constraints are, in general, not being hit, and price increases are moderate. Further, rather than a policy of monetary restraint even being considered, we are now witnessing an easy money policy—M1 grew by 10.5 percent in 1985:1. Moreover, consumer expenditures should remain strong because of the increases in the number of employed, and the rising number of employed helped to raise personal income by 0.6 percent in April, resulting in an increase in consumer spending by 0.7 percent. Retail sales also increased in April (by 0.9 percent), more than offsetting the decline in March which many analysts attribute to late tax refunds.

If there is a significant reduction in the federal budget, there may be a shock to the growth in GNP as the economy adjusts. Yet most analysts expect that this reduced stimulating effect would be countered quickly by subsequent lower interest rates leading to, among other effects, a lower trade deficit.

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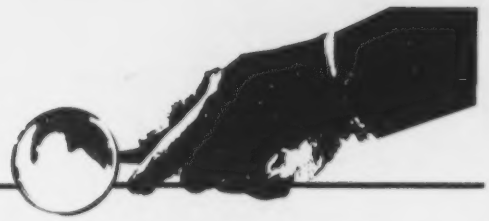
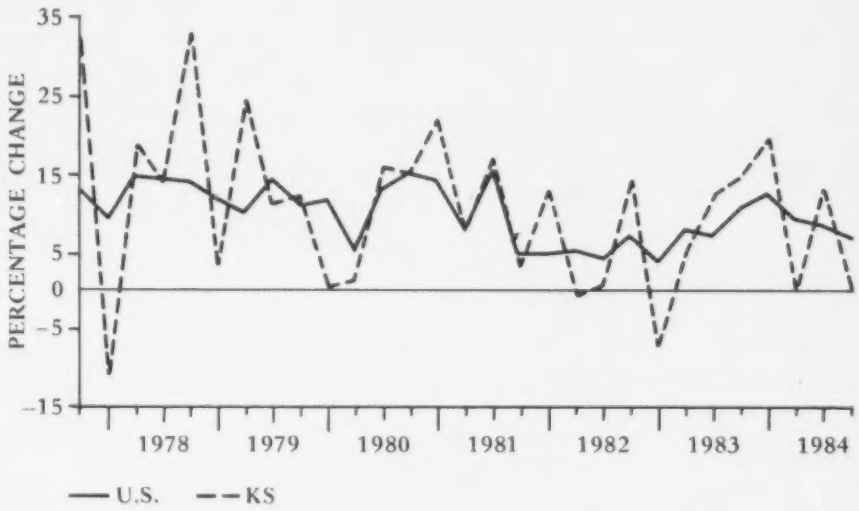
The Kansas Economy



The Kansas economy is sending mixed signals concerning its performance. On the negative side, total personal income in Kansas fell slightly in 1984:4 from 1984:3—a result due to a decline in the volatile farm proprietors' income—and the state's unemployment rate increased from 5.0 percent in December 1983 to 5.8 percent in January 1985. Moreover, this increase came at a time when the U.S. economy was expanding rapidly and as the national unemployment rate fell from 8.2 percent to 7.3 percent. On the plus side, however, the Kansas unemployment rate has been falling: from an unemployment rate of 5.8 percent in January, the rate fell to 5.6 percent in February and to 5.0 percent in March.

Figure 1
Percentage Change by Quarter of Personal Income for Kansas and U.S.: 1977-84



Personal Income

Total personal income in Kansas was $32,955 million in 1984:4, down slightly from $32,972 million in 1984:3, reflecting the decline in farm proprietors' income, which fell from $1,021 million in 1984:3 to $701 million in 1984:4. Large fluctuations in farm proprietors' income are the rule in Kansas rather than the exception, making quarterly changes in personal income difficult to interpret because of its relatively large proportionate share of state income. (Of course, farm proprietors' income also fluctuates a great deal at the national level but is not nearly as large a component of total personal income at the national level as in Kansas).

Figure 1 presents the percent change in total personal income at annual rates for Kansas and the U.S. and shows that the changes oscillate much more in Kansas than in the U.S. An examination of personal income data also reveals that the oscillations are, for the most part, attributable to farm proprietors' income. For example, in 1978:4, personal income in Kansas grew at the phenomenal annual rate of 33 percent, from $18,667 million to $20,055 million. At that time, over half of the increase in personal income was occasioned by an increase in farm proprietors' income which grew at an annual rate of over 2,000 percent. Clearly, changes in personal income in Kansas should be viewed in conjunction with farm proprietors' income.

Employment

The number of employed Kansans increased a substantial 30,800 to 1,155,500 in March from 1,124,700 in February. Yet, as in the U.S. economy, there are some disturbing signs in the employment numbers. Manufacturing employment increased by 1,100 from March 1984 to March 1985; however, this entire increase occurred in the last month. From March 1984 to February 1985, there was no change in the number of manufacturing employed. In the mining industry, the picture was slightly worse. In March 1985, there were 300 less people employed in mining than in March 1984. The reason that the absence of growth in these industries is particularly unsettling is that they are export industries. In a nonself-contained region such as Kansas, the need exists for a strong export base to facilitate growth; manufacturing and mining are industries that bring dollars into the state through the export of their products. Also, jobs in other sectors of the economy such as wholesale trade, retail trade, and the service industry are supported to a large extent by the dollars brought into Kansas by the sale of manufactured goods made in Kansas, such as automobiles and aircraft, and by mined products such as oil and natural gas. If Kansas does not keep up its export base, jobs in nonexporting sectors will begin to erode.

An example of the effect that the jobs in an export-base sector have on the surrounding area is provided by the furor surrounding the site selection of GM's new Saturn plant, for which Kansas City, Kansas, Wichita, Leavenworth, and Topeka are all bidding. Some analysts predict that the 6,000 who will be employed directly by the plant will create an additional 14,000 jobs in the area. Thus, a total of 20,000 jobs may be riding on the GM decision. Given the boom that this employment growth would create in any community, it is understandable that GM has had to postpone the site-selection decision because it has been inundated by offers from states and cities.

General Motors did make a decision to build a new plant in Kansas City, Kansas to replace its aging plant in the Fairfax industrial district. The plant, which will produce small front-wheel driven cars, will employ around 4,000. Applying the multiplier used above, GM's decision will create over 13,000 jobs in the City.

Given this anticipated effect, Kansas City, Kansas did go to great lengths to entice GM. To attract the plant to the area, Kansas City put together a package which included $775

million in industrial development bonds to finance construction of the plant and 100 percent real and personal property tax abatement on the new plant for 10 years.

Agriculture

Along with manufacturing and mining, agriculture is a major exporting industry in Kansas. The current Kansas wheat crop is estimated to be a record amount: according to the U.S. Department of Agriculture, a $464 million wheat crop is expected. The total U.S. production will be around $1,970 million, slightly less than the 1984 harvest. and the Kansas share of the total U.S. winter wheat production should tally approximately 25 percent. Wheat production worldwide is up in both importing and exporting countries, and, consequently, the U.S.D.A. export forecasts are declining. With the expected declining exports and flat domestic consumption, the stockpiles of wheat should continue to increase, approaching the level which would satisfy domestic demand for an entire year.

In order to stimulate exports, a new export subsidy program has been announced. Through this program, the government gives some amount of federal stockpiled grain to countries which purchase U.S. grain. This program will undoubtedly increase the amount of grain exported from the U.S. because the program simply lowers the effective price to the purchaser of the grain.

This program is increasing the world supply of grain and, thereby, driving the price down. The government grain is under lock-and-key and cannot be sold until the price reaches $4.45 per bushel; evidently, however, the government can give it away, and not for the purpose of stimulating exports in order to raise the price of wheat. To be sure, exports will be stimulated, but a portion of the grain exported will be grain that previously did not "exist" in the sense that it did not affect market prices. Thus, the reason for this program is simply to reduce the storage costs associated with stockpiling the grain.

The importance of the wheat crop on the Kansas economy is seen by considering the sale of the 464 million bushels of wheat: at a price of slightly more than $3 per bushel, the sale of wheat would bring $1.5 billion. This $1.5 billion is, of course, circulated through the Kansas economy. Initial expenditures, for example, would include (but are not limited to) farm machinery, seed, fertilizer, fuel, and personal consumption expenditures by the farm household. Although estimating the total influence of the $1.5 billion on the Kansas economy is very difficult, a conservative quess would be that $3.0 billion is the total economic activity in Kansas generated by wheat production. This conservative figure amounts to 10 percent of the total personal income in the state.

Conclusions

The growth in personal income in Kansas is, because of the nature of its components, very volatile in the short run. Although there will be dramatic, short-term fluctuations, relatively slow general growth of personal income is expected unless a component of the export base expands. Manufacturing employment has been basically static in the past year in Kansas, and the agricultural outlook is not promising. Unless increases in one or both of these industries occur, continued employment expansion in the service industries will be difficult to maintain.

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Economic Indicators

TABLE ONE: ECONOMIC INDICATORS

Comparison Indicators		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly,at annual rates, SA						
Kansas - Mil. $	4th	32995	32972	30607	0.07	7.80
United States - Bil.72 $	1st	1399.1	1389.5	1339.5	0.70	4.45
B. Employment - Quarterly, NSA						
Kansas - Thou.	1st	1130.7	1141.7	1092.3	-0.96	3.52
United States - Mil.	1st	106.7	105.9	103.8	0.76	2.86
C. Unemployment Rate - Quarterly, NSA						
Kansas - %	1st	5.5	5.3	5.7		
United States - %	1st	7.3	7.2	7.9		
D. Retail Sales - Monthly, at annual rates, NSA						
Kansas - Mil. $	MAR	1203.3	1086.7	1303.3	10.74	-7.67
United States - Bil. $	MAR	111.3	112.1	104.5	-0.71	6.51
E. Consumer Price Index, CPI-U, All items - Monthly, SA						
Kansas City* - 1967 = 100	FEB	314.6	313.7	306.3	0.29	2.71
United States - 1967 = 100	MAR	319.2	317.7	307.9	0.47	3.67
Kansas Indicators						
F. Construction Activity - Quarterly, NSA						
Value of Building Permits** - Tho. $		NA	NA	NA	NA	NA
G. New Incorporations - Quarterly, NSA						
For Profit - Number	1st	395.7	389.0	492.0	1.71	-19.58
H. Crude Oil Production - Quarterly						
Thousand BBLS		NA	NA	NA	NA	NA
I. Tax Revenue, Quarterly, NSA						
General Fund Tax Revenue - Mil. $	1st	137.8	122.9	124.5	12.15	10.68
J. Operating Expenditures, Quarterly, NSA						
General Fund Operating Expenditures - Mil. $	1st	132.2	134.6	122.3	-1.81	8.10

NOTES: *The Kansas City CPI-U is published bimonthly starting with February.
**Includes only the activity in the state's twelve largest cities (by population).
National employment and unemployment rate figures are based on the Current Population Survey (household survey).
State figures are based on the Current Employment Statistics Survey (establishment survey).
NSA-Not Seasonally Adjusted.
SA-Seasonally Adjusted.

SOURCE: BEA, BLS, Ks. Dept. of Human Resources, Ks. Secretary of State, Ks. Dept. of Administration, Ks. Dept. of Revenue.

TABLE TWO: NATIONAL INDICATORS
(Seasonally Adjusted)

General Indicators		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Income Measures - Quarterly, at annual rates						
Gross National Product - Bil. 72$	1st	1695.4	1662.4	1610.9	0.18	3.38
Disposable Personal Income - Bil. 72$	1st	1181.5	1186.7	1147.6	-0.44	2.96
Personal Consumption - Bil. 72$	1st	1089.2	1075.4	1044.1	1.28	4.32
Gross Private Investment - Bil. 72$	1st	294.1	289.9	300.2	1.45	-2.03
Net Export of Goods and Services - Bil. 72$	1st	-27.0	-13.4	-8.3	101.49	225.30
Government Purchases - Bil. 72$	1st	309.1	310.5	289.5	-0.45	6.77
Personal Savings - Bil. 72$	1st	118.3	163.0	152.5	-27.42	-22.43
Savings Rate - %	1st	4.7	6.1	6.1	-22.40	-21.98
B. Labor Force - Monthly						
Civilian Labor Force - Mil.	MAR	115.5	115.1	112.9	0.35	2.30
Employed - Mil.	MAR	107.1	106.7	104.1	0.37	2.88
Unemployed - Mil.	MAR	8.4	8.4	8.8	0.00	-4.55
Unemployment Rates - percent						
All -	MAR	7.3	7.3	7.8		
Women -	MAR	7.6	7.5	7.9		
Men -	MAR	7.0	7.1	7.7		
Teens -	MAR	18.2	18.4	19.8		
Blacks and other than white -	MAR	13.9	14.6	15.1		
Whites -	MAR	6.2	6.2	6.7		
C. General Business - Quarterly						
Industrial Production - 1967 = 100	1st	165.4	164.7	159.8	0.45	3.53
Mfg. and Trade Sales - Bil. 72$	1st	181.1	180.2	174.6	0.54	3.74
Mfg. and Trade Inventories - Bil. 72$	1st	280.9	278.3	262.8	0.92	6.85
New Orders, Durable Goods - Bil. 72$	1st	42.0	41.3	42.3	1.69	-0.63
Capacity Utilization, Mfg. %	1st	81.0	81.6	80.7		
New Housing Starts, Private - Tho.	1st	1793.0	1598.0	1947.0	12.20	-7.91
D. Prices - Monthly						
Consumer Prices - 1967 = 1009						
CPI-W, All Items	DEC	312.6	311.8	301.9	0.26	3.54
CPI-U, All Items	MAR	319.2	317.7	307.9	0.47	3.67
Food	MAR	309.2	309.3	301.9	-0.03	2.42
Housing	MAR	344.6	343.7	331.4	0.26	3.98
Apparel	MAR	205.3	204.3	198.8	0.49	3.27
Transportation	MAR	319.7	315.6	309.8	1.30	3.20
Medical	MAR	395.3	392.0	373.5	0.84	5.84
Producer Prices - 1967 = 100 (NSA)						
All Commodities	MAR	308.7	309.2	311.0	-0.16	-0.74
Industrial Commodities	MAR	322.6	322.5	321.9	0.03	0.22
Crude Materials	MAR	312.9	318.3	338.8	-1.70	-7.64
Capital Equipment	MAR	299.5	299.1	292.3	0.13	2.46
Agricultural Prices - 1977 = 100						
Prices Received	MAR	134.0	135.0	145.0	-0.74	-7.59
Prices Paid	MAR	164.0	164.0	165.0	0.00	-0.61
Parity Ratio - Number	MAR	82.0	82.0	88.0	0.00	-6.82
E. Monetary and Credit Aggregates - Quarterly						
(Annual rates of change, seasonally adjusted in percent.)						
Total Reserves -	4th	-0.7	6.8	0.8		
M1	4th	3.2	4.5	4.8		
Commercial Banks:						
Savings -	4th	-10.4	-5.6	-6.4		
Small Denomination Time -	4th	6.9	13.4	19.3		
Large Denomination Time -	4th	12.2	19.3	-2.1		
Thrift Institutions:						
Savings -	4th	-6.6	-6.7	-4.4		
Large Denomination Time -	4th	31.3	38.1	58.1		
Debt Components:						
Federal -	4th	15.6	14.7	14.3		
Nonfederal -	4th	11.6	11.8	9.8		
Interest Rates - Monthly						
Prime Rate - %	MAR	10.50	10.50	11.21		
Discount Rate - %	MAR	8.00	8.00	8.50		

SOURCES: BEA, BLS, Survey of Current Business, Federal Reserve Bulletin.

TABLE THREE: EMPLOYMENT IN KANSAS

Category		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. General Indicators - Quarterly						
Civilian Labor Force - Tho.	1st	1195.8	1205.7	1158.7	-0.82	3.20
Employed - Tho.	1st	1130.7	1141.7	1092.3	-0.96	3.52
Farm Employment - Tho.	1st	47.3	52.2	48.4	-9.51	-2.27
Unemployed Tho.	1st	65.2	64.1	66.4	1.66	-1.91
Initial Claims for Unemployment Insurance - Tho.	1st	16.0	14.9	13.8	7.68	16.23
Average Work Week, Mfg. - Hrs.	1st	38.7	40.3	40.1	-3.97	-3.49
B. Industry Employment - Quarterly, in thousands						
All Industries -	1st	963.5	953.0	922.4	1.10	4.45
Manufacturing -	1st	175.7	178.6	172.3	-1.64	1.93
Durable Goods -	1st	103.6	108.1	104.3	-4.16	-0.64
Fabricated Metal Production -	1st	11.3	11.9	11.0	-4.76	3.03
Machinery (incl. Elec.) -	1st	26.5	26.9	27.5	-1.24	-3.52
Transport. Equip. -	1st	45.4	49.5	46.7	-8.28	-2.71
Aircraft and Parts -	1st	NA	38.5	36.1	NA	NA
Nondurable Goods -	1st	72.0	70.5	68.0	2.22	5.93
Food and Kindred Prod. -	1st	26.8	25.1	24.0	6.91	11.82
Meat Products -	1st	13.4	11.5	10.7	16.81	25.55
Printing and Publishing -	1st	18.3	17.6	17.4	3.97	5.57
Petroleum and Coal -	1st	3.3	4.1	4.2	-20.97	-21.60
Mining -	1st	17.1	17.8	17.2	-3.75	-0.58
Oil and Gas Extraction -	1st	15.6	16.1	15.6	-2.70	0.00
Contract Construction -	1st	36.4	41.5	36.2	-12.44	0.46
Trans. and Public Utilities -	1st	63.3	64.4	62.8	-1.71	0.69
Wholesale Trade -	1st	67.1	65.7	64.7	2.08	3.71
Retail Trade -	1st	174.5	166.4	157.6	4.89	10.77
Finance, Ins., and Real Estate -	1st	62.8	61.0	60.2	2.95	4.37
Services	1st	186.6	175.6	172.9	6.23	7.90
Federal Government -	1st	26.8	26.6	25.9	0.63	3.48
State and Local Government -	1st	164.3	166.6	163.9	-1.36	0.24

SOURCES: BLS, Ks. Dept. of Human Resources.

TABLE FOUR: INCOME IN KANSAS
(Seasonally Adjusted, at Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Personal Income - Quarterly						
Total - Mil. $	4th	32955	32972	30607	-0.05	7.67
Nonfarm Income - Mil. $	4th	31950	31657	29365	0.93	8.80
Farm Income - Mil. $	4th	1005	1316	1243	-23.63	-19.15
Average Weekly Earnings, Mfg.* - $	1st	360	380	377	-5.30	-4.42
B. Earnings by Industry - Quarterly, in Millions						
Nonfarm -	4th	21111	21055	19616	0.27	7.62
Farm -	4th	1005	1316	1243	-23.63	-19.15
Manufacturing -	4th	4376	4548	4220	-3.78	3.70
Durable Goods -	4th	2675	2860	2664	-6.47	0.41
Nondurable Goods -	4th	1701	1688	1566	0.77	8.62
Mining -	4th	655	619	540	5.82	21.30
Contract Construction -	4th	1288	1304	1096	-1.23	17.52
Trans. and Public Utilities -	4th	2020	2036	1946	-0.79	3.80
Wholesale Trade -	4th	1682	1634	1528	2.94	10.08
Retail Trade -	4th	2050	2009	1925	2.04	6.49
Finance, Ins., and Real Estate -	4th	1216	1194	1126	1.84	7.99
Services -	4th	4058	3959	3645	2.50	11.33
Federal Government -	4th	641	642	604	-0.16	6.13
State and Local Government -	4th	2518	2505	2392	0.52	5.27

NOTE: *Not seasonally adjusted.

SOURCES: BEA, Ks. Dept. of Human Resources.

TABLE FIVE: KANSAS RETAIL SALES SUBJECT TO SALES TAX
(At Annual Rates)

Account		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Business Classification - Quarterly, in Millions						
Apparel -	1st	44.9	34.5	42.3	30.40	6.25
Automotive -	1st	234.4	230.2	229.1	1.79	2.31
Food -	1st	331.4	304.3	302.6	8.92	9.54
Furniture -	1st	86.5	63.2	64.9	36.84	33.37
General Merchandise -	1st	234.5	192.5	213.4	21.81	9.88
Lumber and Building Materials -	1st	96.4	103.2	92.8	-6.59	3.80
Prof. and Pers. Service -	1st	71.9	67.8	63.7	6.05	12.82
Public Utilities -	1st	50.5	59.2	72.6	-14.64	-30.50
Unclassified -	1st	121.5	107.2	116.4	13.38	4.42
Farm and Garden Products -	1st	1.5	1.0	1.2	50.00	28.13
Manufacturing and Trading -	1st	90.6	90.8	83.1	-0.23	8.93
Miscellaneous -	1st	6.5	4.4	3.8	48.07	72.42
Total -	1st	1393.9	1258.3	1285.9	10.78	8.40

NOTE: Retail sales figures are based on sales tax collections. Actual and reported retail sales may vary.

SOURCES: Ks. Dept. of Revenue.

TABLE SIX: EMPLOYMENT AND SALES FOR SMSAs AND COUNTIES

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Wichita SMSA - Quarterly						
Civilian Labor Force - Tho.	1st	225.6	231.0	220.2	-2.31	2.48
Employed - Tho.	1st	212.6	146.1	207.1	45.49	2.66
Unemployed - Tho.	1st	13.0	13.7	13.1	-4.63	-0.26
Rate - %	1st	5.8	5.9	5.9		
Retail Sales - Mil. $	1st	281.5	251.4	264.9	11.96	6.25
B. Kansas Portion of Kansas City SMSA - Quarterly						
Civilian Labor Force - Tho.	1st	264.3	230.3	219.9	14.75	20.18
Employed - Tho.	1st	251.6	219.5	208.6	14.61	20.59
Unemployed - Tho.	1st	12.6	10.7	11.3	17.70	12.13
Rate - %	1st	4.8	4.7	5.1		
Retail Sales - Mil. $	1st	271.7	240.0	240.9	13.21	12.81
C. Topeka SMSA - Quarterly						
Civilian Labor Force - Tho.	1st	84.5	97.0	93.5	-12.85	-9.62
Employed - Tho.	1st	79.9	91.1	87.2	-12.33	-8.37
Unemployed - Tho.	1st	4.7	5.9	6.4	-19.77	-25.65
Rate - %	1st	5.6	6.1	6.8		
Retail Sales - Mil. $	1st	88.3	90.3	94.6	-2.26	-6.68
D. Lawrence SMSA - Quarterly						
Civilian Labor Force - Tho.	1st	35.2	34.4	33.6	2.32	4.86
Employed - Tho.	1st	33.7	33.0	32.0	2.33	5.53
Unemployed - Tho.	1st	1.5	1.4	1.6	4.65	-8.16
Rate - %	1st	4.3	4.2	4.9		
Retail Sales - Mil. $	1st	30.8	29.1	27.5	5.98	11.88
E. Riley County--Manhattan Area - Quarterly						
Civilian Labor Force - Tho.	1st	23.1	23.1	22.2	-0.14	3.75
Employed - Tho.	1st	22.1	22.2	21.3	-0.30	3.59
Unemployed - Tho.	1st	1.0	0.9	0.9	3.57	7.41
Rate - %	1st	4.2	4.0	4.2		
Retail Sales - Mil. $	1st	18.1	16.6	17.8	8.70	1.54
F. Reno County--Hutchinson Area - Quarterly						
Civilian Labor Force - Tho.	1st	30.2	30.4	29.4	-0.66	2.49
Employed - Tho.	1st	28.3	28.4	27.3	-0.35	3.54
Unemployed - Tho.	1st	1.8	1.9	2.1	-6.90	-14.29
Rate - %	1st	6.1	6.4	7.2		
Retail Sales - Mil. $	1st	35.7	32.5	32.5	9.88	9.92

G. Crawford County--Pittsburg Area - Quarterly						
Civilian Labor Force - Tho.	1st	16.5	16.7	16.4	-1.59	0.61
Employed - Tho.	1st	15.1	15.5	15.1	-2.16	0.44
Unemployed - Tho.	1st	1.3	1.3	1.3	0.00	0.00
Rate - %	1st	8.0	7.7	7.9		
Retail Sales - Mil. $	1st	13.2	12.4	12.5	6.44	5.87
H. Lyon County--Emporia Area - Quarterly						
Civilian Labor Force - Tho.	1st	18.0	18.3	17.5	-1.28	3.24
Employed - Tho.	1st	17.0	17.4	16.5	-2.30	3.24
Unemployed - Tho.	1st	1.0	0.9	1.0	11.11	0.00
Rate - %	1st	5.6	4.9	5.7		
Retail Sales - Mil. $	1st	16.8	16.5	17.6	2.25	-4.24
I. Saline County--Salina Area - Quarterly						
Civilian Labor Force - Tho.	1st	26.3	26.1	25.6	0.77	2.86
Employed - Tho.	1st	24.5	24.5	23.8	0.00	2.80
Unemployed - Tho.	1st	1.8	1.6	1.7	12.24	7.84
Rate - %	1st	6.9	6.2	6.8		
Retail Sales - Mil. $	1st	31.0	28.3	29.9	9.44	3.57
J. Barton County--Great Bend Area - Quarterly						
Civilian Labor Force - Tho.	1st	18.7	19.1	18.3	-2.27	1.82
Employed - Tho.	1st	17.7	18.3	17.4	-3.10	1.53
Unemployed - Tho.	1st	1.0	0.8	0.9	20.83	11.54
Rate - %	1st	5.1	4.2	4.8		
Retail Sales - Mil. $	1st	27.5	25.1	27.8	9.57	-1.15
K. Montgomery County--Coffeyville Area - Quarterly						
Civilian Labor Force - Tho.	1st	18.6	19.2	18.8	-3.30	-1.42
Employed - Tho.	1st	17.1	17.7	17.2	-3.38	-0.19
Unemployed - Tho.	1st	1.5	1.5	1.7	.00	-12.00
Rate - %	1st	7.7	7.6	8.9		
Retail Sales - Mil. $	1st	17.7	15.8	16.5	12.02	7.17

SOURCE: Ks. Dept. of Human Resources, Ks. Dept. of Revenue.

TABLE SEVEN: KANSAS AGRICULTURAL INDICATORS

Item		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Prices Received - Monthly						
All Farm Products - 1977 = 100	MAR	NA	NA	169	NA	
All Crops - Do.	MAR	NA	NA	158	NA	
Wheat - $/Bu.	MAR	3.29	3.26	3.39	0.92	-2.95
Sorghum Grain - $/Cwt.	MAR	4.07	3.93	4.75	3.56	-14.32
Corn - $/Bu.	MAR	2.73	2.71	3.25	0.74	-16.00
Soybeans - Do.	MAR	5.82	5.62	7.55	3.56	-22.91
All Hay - $/Ton	MAR	77.00	79.00	83.00	-2.53	-7.23
Livestock and Products - 1977 = 100	MAR	NA	NA	175	NA	
All Beef Cattle - $/Cwt.	MAR	61.20	62.90	65.80	-2.70	-6.99
Steers and Heifers - Do.	MAR	62.40	64.50	66.90	-3.26	-6.73
Calves - Do.	MAR	68.00	67.30	64.30	1.04	5.75
Hogs - Do.	MAR	43.10	48.20	45.80	-10.58	-5.90
Milk - Do.	MAR	14.00	14.60	13.90	-4.11	0.72

SOURCE: Ks. Crop and Livestock Reporting Service.

NOTE: *Not seasonally adjusted.

SOURCES: BEA, Ks. Dept. of Human Resources.

TABLE EIGHT: BANKING ACTIVITY IN KANSAS*

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Federal Reserve Member Banks						
Kansas - Quarterly, in Millions						
Total Deposits -	1st	27963.7	27148.3	23921.7	3.00	16.90
Total Checkable -	1st	5150.3	5094.0	4994.3	1.11	3.12
Demand Deposits -	1st	3010.0	3085.0	3065.3	-2.43	-1.81
Other Checkable -	1st	2140.3	2009.0	1925.0	6.54	11.19
Small Time and Savings -	1st	18809.7	18285.3	15798.3	2.87	19.06
Large Time -	1st	4003.7	3769.0	3149.3	6.23	27.13
Kansas City, KS - Quarterly, in Millions						
Total Loans -	1st	393.6	364.4	296.6	8.00	32.70
Real Estate -	1st	96.7	84.6	69.3	14.31	39.56
Commercial and Industrial -	1st	126.6	117.0	89.5	8.21	41.42
Consumer -	1st	47.3	46.0	46.7	2.68	1.14
Total Deposits -	1st	468.5	442.5	397.6	5.88	17.83
Demand Deposits -	1st	92.9	98.8	97.6	-6.00	-4.78
Time and Savings -	1st	194.8	179.0	157.7	8.83	23.57
Topeka - Quarterly, in Millions						
Total Loans -	1st	387.2	374.5	333.1	3.38	16.24
Real Estate -	1st	91.1	87.4	59.2	4.20	53.92
Commercial and Industrial -	1st	167.0	186.2	181.1	-10.29	-7.75
Consumer -	1st	63.8	74.2	52.8	-14.01	20.90
Total Deposits -	1st	524.6	500.9	481.5	4.73	8.95
Demand Deposits -	1st	156.2	148.1	157.3	5.45	-0.68
Time and Savings -	1st	227.1	215.4	212.1	5.40	7.07
Wichita - Quarterly, in Millions						
Total Loans -	1st	1156.4	1113.4	1003.1	3.87	15.28
Real Estate -	1st	157.9	169.6	149.7	-6.90	5.48
Commercial and Industrial -	1st	553.1	515.0	452.4	7.40	22.28
Consumer -	1st	297.9	294.3	254.7	1.20	16.96
Total Deposits -	1st	1688.1	1681.1	1526.2	0.42	10.61
Demand Deposits -	1st	442.4	449.5	444.4	-1.57	-0.44
Time and Savings -	1st	678.4	648.5	637.4	4.61	6.44

SOURCE: Federal Reserve Bank of Kansas City.

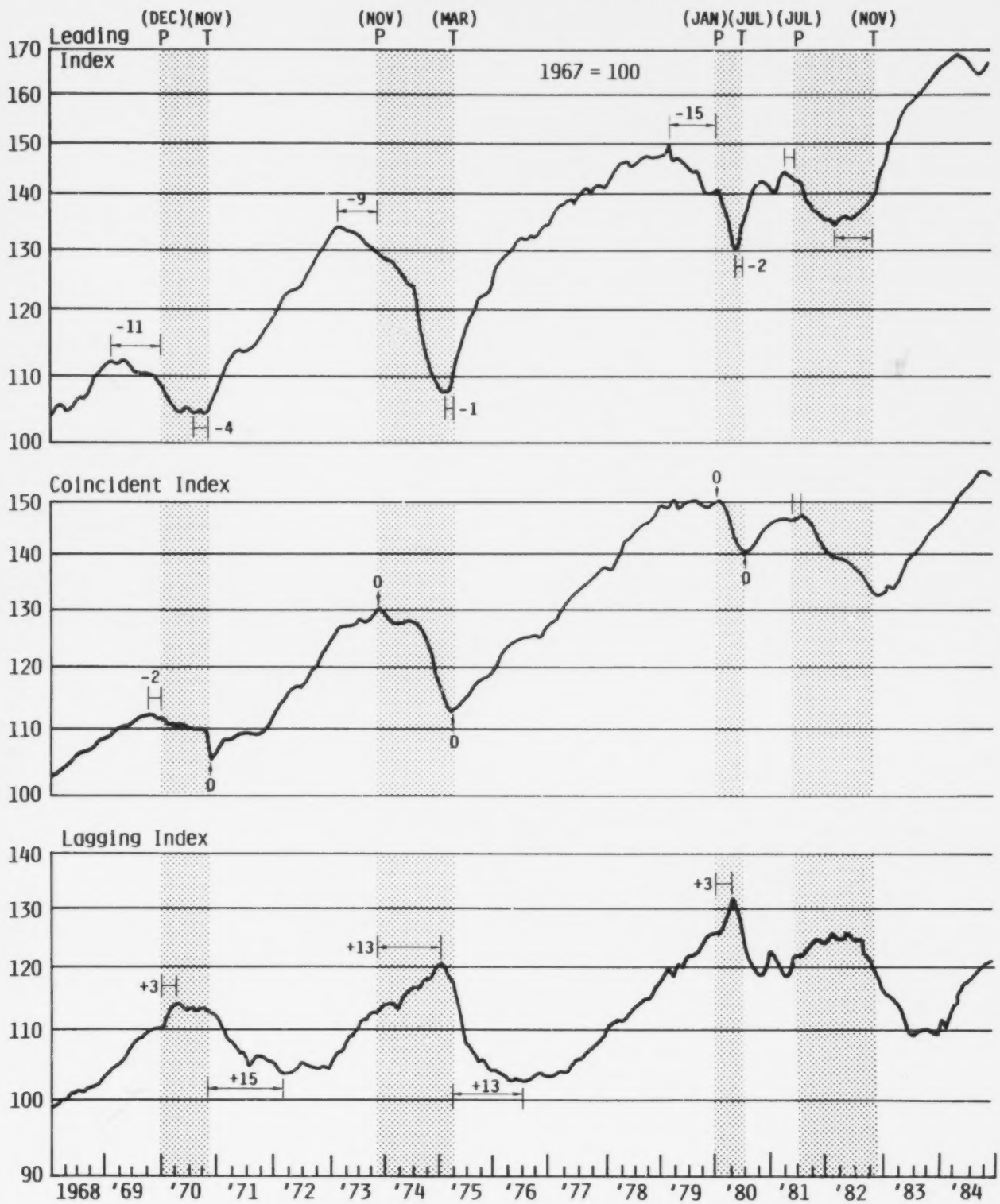
* The data for what was formerly Section B of this table --All Commercial Banks--are no longer provided by the Federal Reserve Bank of Kansas City. It should be noted,therfore,that the data above in Section A pertain only to Federal Reserve member banks in Kansas and do not represent all commercial banking in the state. Since 1980,Section Adata has covered approximately 50 percent of the state's banking activity.

TABLE NINE: SAVINGS AND LOAN ACTIVITY IN KANSAS

Area		Current Period	Previous Period	Year Ago	% Change From Previous Period	% Change From Year Ago
A. Kansas - Quarterly, in Millions						
Total Loans -	1st	12941.1	11865.8	9967.7	9.06	29.83
Net Gain in Savings -	1st	51.4	33.0	69.2	55.92	-25.72
B. Kansas City, KS - Quarterly, in Millions						
Total Loans -	1st	1701.1	1686.4	1299.4	0.87	30.91
Net Gain in Savings -	1st	-2.0	1.0	10.7	-306.90	-118.63
C. Topeka - Quarterly, in Millions						
Total Loans -	1st	2555.6	2457.7	2305.1	3.98	10.87
Net Gain in Savings -	1st	3.7	9.9	7.6	-62.63	-51.53
D. Wichita - Quarterly, in Millions						
Total Loans -	1st	2203.4	2067.6	1633.1	6.56	34.92
Net Gain in Savings -	1st	13.0	5.7	4.5	126.74	188.89

SOURCE: Federal Home Loan Bank of Topeka.

COMPOSITE INDEXES



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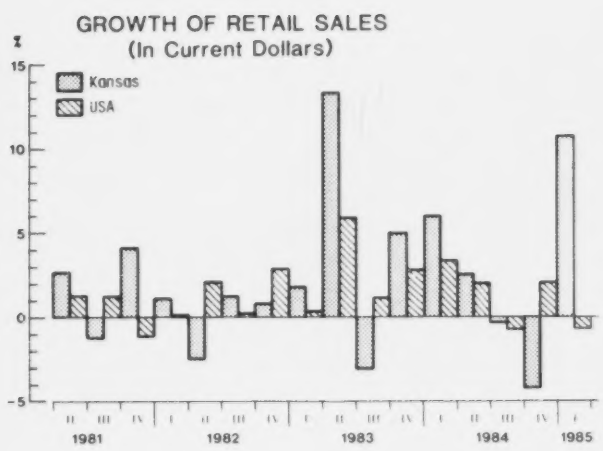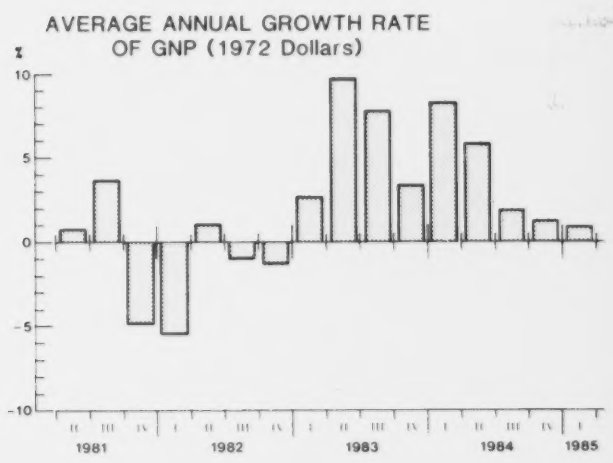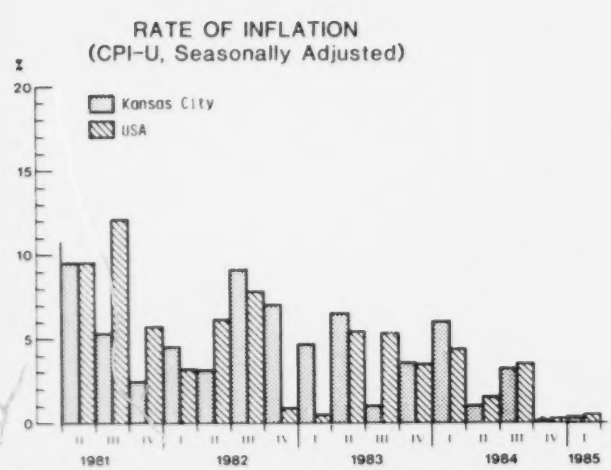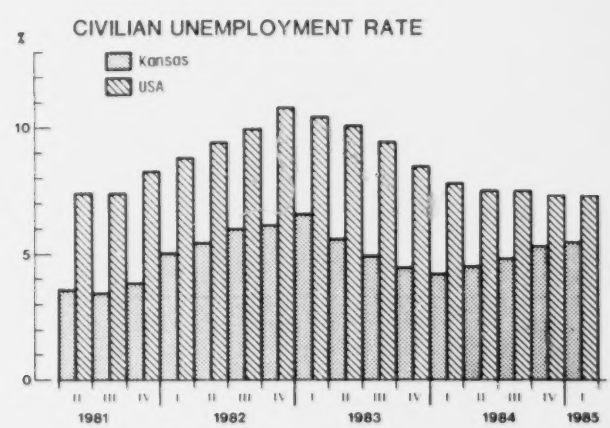
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